MARKET COMMENTARY MONDAY, APRIL 23, 2018

EXECUTIVE SUMMARY

Skillful Pilot – Tammie Jo Simply Did Her Job
Nerves of Steel – Keeping the Faith Has Paid Big Dividends
Earnings Outlook – Stronger Global Economy Likely to Support Handsome EPS Growth
Interest Rates – 10-Year Treasury Hits 2.96%
Rising Rates & Stocks – Historical Evidence since July 8, 2016 Low of 1.36% on the 10-Year
Rising Rates & Bonds – Equities, Not Fixed Income, the Place to Be
Fund Data – Bond Inflows & U.S. Stock Outflows
Valuation Perspective – Forward Earnings Estimates Today and December 2017
Stock News – Updates on IBM, NOV, JNJ, MAN, CE, BHGE, BK, SLB, BAC, KEY, BBT & GS

Market Review

Skillful pilots gain their reputations from storms and tempests, and our hats are definitely off to Tammie Jo Shults, the now famous Captain of Southwest Flight 1380, who guided her crippled aircraft to a safe landing, all the while remaining cool (and polite) in the cockpit. One of her very grateful passengers (sadly, one soul lost her life when the engine blew) credited her "nerves of steel" in the ordeal, but Ms. Shults said, "We all feel we were simply doing our jobs."

Certainly, investing isn't life and death, and our nerves of steel pale in comparison to those of Ms. Shults, but we have managed to simply do our jobs in steering our portfolios through plenty of turbulent periods by keeping calm in periods of turmoil, secure in the belief that equities will prove rewarding in the fullness of time.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Staying the Course Has Rewards

Despite enduring two-dozen market pullbacks of at least 12% since its launch in 1977, *The Prudent Speculator* tops the Hulbert rankings.

Start Date		End Date	Price Return %	Start Date		End Date	Price Return %
11.03.15	to	02.11.16	-13.3	03.24.00	to	04.04.01	-27.8
05.21.15	to	08.25.15	-12.4	07.16.99	to	10.15.99	-12.1
04.29.11	to	10.03.11	-19.4	07.17.98	to	08.31.98	-19.3
04.23.10	to	07.02.10	-16.0	07.16.90	to	10.11.90	-19.9
01.06.09	to	03.09.09	-27.6	10.21.87	to	12.04.87	-13.3
11.04.08	to	11.20.08	-25.2	08.25.87	to	10.19.87	-33.2
05.19.08	to	10.27.08	-40.5	10.10.83	to	07.24.84	-14.4
10.09.07	to	03.10.08	-18.6	11.30.81	to	08.12.82	-18.9
11.27.02	to	03.11.03	-14.7	11.28.80	to	09.25.81	-19.7
08.22.02	to	10.09.02	-19.3	02.13.80	to	03.27.80	-17.1
01.04.02	to	07.23.02	-32.0	09.12.78	to	11.14.78	-13.6
05.21.01	to	09.21.01	-26.4	12.31.76	to	03.06.78	-19.1
						AVERAGE	**-20.6**

Down Markets for the S&P 500 Price Return index are defined as periods where the index fell more than 12% without an intervening 12% advance. SOURCE: Al Frank using data from Bloomberg

Hulbert Rankings
30-Year Performance Scorecard
Newsletter Averages

Newsletter	Annualized
Prudent Speculator, The	14.71
Investment Reporter, The	12.17
Fidelity Monitor & Insight	12.05
Turnaround Letter, The	11.77
NoLoad FundX	11.71
Investment Quality Trends	11.53
Bob Brinker's Marketimer	10.89
PaulMerriman.com	7.18
S&P 500 Total Return	10.47

As of 3.31.18. Source: http://hulbertratings.com/30-year-scoreboard/

No doubt, we have endured more than a few rough landings along the way, but our faith has been kept aloft by historical evidence that shows that equities have returned 8.8% (Non-Dividend Payers) to 13.4% (Value Stocks) per annum dating back to 1927. The primary reason for those returns is that corporate profits and dividends have grown significantly over the years, with corporations generally becoming more valuable over time due to organic growth, acquisitions, cost-cutting, efficiencies and inflation.

History shows that stock prices generally follow earnings, and with the global economy fairly healthy, despite plenty of concerns about trade, debt and financial imbalances around the world,…

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THE PRUDENT SPECULATOR
IMF World Economic Outlook – Apr '18

IMF Global Growth Projections

		IMF WEO Projections		Difference from 1/18	
	2017	2018	2019	2018	2019
World Output	**3.8**	**3.9**	**3.9**	**0.0**	**0.0**
Advanced Economies	**2.3**	**2.5**	**2.2**	**0.2**	**0.0**
United States	**2.3**	**2.9**	**2.7**	**0.2**	**0.2**
Euro Area	**2.3**	**2.4**	**2.0**	**0.2**	**0.0**
Germany	2.5	2.5	2.0	0.2	0.0
France	1.8	2.1	2.0	0.2	0.1
Italy	1.5	1.5	1.1	0.1	0.0
Spain	3.1	2.8	2.2	0.4	0.1
Japan	1.7	1.2	0.9	0.0	0.0
United Kingdom	1.8	1.6	1.5	0.1	0.0
Canada	3.0	2.1	2.0	-0.2	0.0
Emerging Market/Developing Economies	**4.8**	**4.9**	**5.1**	**0.0**	**0.1**
Commonwealth of Independent States	2.1	2.2	2.1	0.0	0.0
Russia	1.5	1.7	1.5	0.0	0.0
Emerging and Developing Asia	6.5	6.5	6.6	0.0	0.0
China	**6.8**	**6.6**	**6.4**	**0.0**	**0.0**
India	6.7	7.4	7.8	0.0	0.0
Emerging and Developing Europe	5.8	4.3	3.7	0.3	-0.1
Latin America and the Caribbean	1.3	2.0	2.8	0.1	0.2
Brazil	1.0	2.3	2.5	0.4	0.4
Mexico	2.0	2.3	3.0	0.0	0.0

Source: International Monetary Fund, World Economic Outlook Update, April 2018

Cyclical Upswing, Structural Change
World growth strengthened in 2017 to 3.8 percent, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is expected to tick up to 3.9 percent this year and next, supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States.

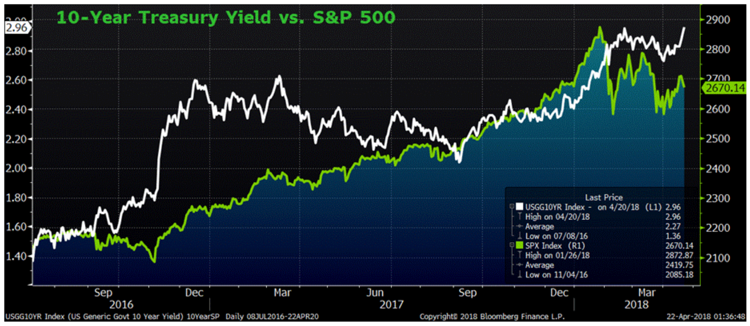
…we see no reason why Corporate America's bottom line won't continue to grow. In fact, Standard & Poor's now estimates that bottom-up operating earnings per share for the S&P 500 will rise to $155.88 this year and to $172.06 in 2019, up from $124.51 in 2017.

Of course, an improving economy and better outlook for EPS growth has contributed strongly to an increase in interest rates, with the yield on the 10-Year U.S. Treasury climbing to a four-plus-year closing high of 2.96% on Friday. Not surprisingly, we suppose, the big spike in interest rates led to more consternation last week on Wall Street, even as the major market averages finished the five days with overall modest gains. Indeed, despite a 13 basis point jump in the 10-Year yield from 2.83% a week ago, the S&P 500 advanced 0.54% and the Russell 3000 increased 0.64%, providing more evidence that rising interest rates need not be fatal for stocks.

Certainly, stock prices could eventually suffer in the face of higher interest rates (many think a break above 3.0% on the benchmark government bond might be a potential negative catalyst), but the last couple of years have suggested quite the opposite thus far, considering what has transpired since the 10-Year yield hit bottom at 1.36% back in July 2016,…

THE PRUDENT SPECULATOR
Rising Rates are Bad for Stocks?

Stocks have struggled for continued gains in 2018, with many blaming the spike in the 10-Year U.S. Treasury yield, which hit a four-plus year high of 2.96% on April 20, 2018. Of course, the S&P 500 has managed to soar from 2130 on July 8, 2016, despite a more-than-doubling in the 10-Year yield from its historic low of 1.36% over the same time period.



…with even the dismal returns race this year arguing that the place one does NOT want to be for sure when rates move up is in bonds,…

THE PRUDENT SPECULATOR
Rising Rates are Bad for…Bonds

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since 10-Yr Yield Low (7.8.16) %	Bloomberg Symbol	Index
Stock Indexes					
-0.41	28.11	16.50	40.68	INDU Index	Dow Jones Industrial Average
3.83	29.73	8.97	47.19	CCMP Index	NASDAQ Composite Index
0.51	21.68	12.04	30.03	RIY Index	Russell 1000 Index
2.23	14.63	21.28	36.01	RTY Index	Russell 2000 Index
0.64	21.12	12.72	30.48	RAY Index	Russell 3000 Index
0.44	21.82	11.95	29.91	SPX Index	S&P 500 Index
2.64	30.21	7.07	38.14	RLG Index	Russell 1000 Growth Index
-1.66	13.64	17.33	22.18	RLV Index	Russell 1000 Value Index
4.45	22.14	11.28	40.38	RUO Index	Russell 2000 Growth Index
-0.15	7.82	31.72	31.48	RUJ Index	Russell 2000 Value Index
2.78	29.58	7.38	38.32	RAG Index	Russell 3000 Growth Index
-1.55	13.17	18.38	22.86	RAV Index	Russell 3000 Value Index
3.14	27.43	6.89	35.51	SGX Index	S&P 500 Growth Index
-2.39	15.35	17.39	23.17	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.25	3.57	0.79	-2.42	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.40	3.53	0.75	-2.63	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-0.88	8.17	0.82	11.24	PONAX Equity	Pimco Income Fund-A
0.59	2.39	0.81	0.91	VTABX Equity	Vanguard Ttl Intl Bnd-Adm
-2.07	3.10	0.76	-1.78	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-2.01	5.13	0.73	0.55	PTTRX Equity	Pimco Total Return Fund-Inst
-0.56	7.36	0.63	10.93	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.77	2.02	-0.01	0.68	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-1.22	4.53	0.21	-0.63	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.34	4.36	0.63	2.68	DODIX Equity	Dodge & Cox Income
-1.09	3.79	0.51	1.34	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.45	1.89	0.07	1.84	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 4.20.18. 10-Year Treasury Yield Low (1.36%) was July 8, 2016.

While Value strategies won the performance spoils by a wide margin in 2016, it has been an entirely different story since, as high-flying Growth stocks like Amazon, Facebook, Alphabet and Tesla captured the fancy of investors. Of course, given that the yield on the 10-Year U.S. Treasury has more than doubled since July 8, 2016, the real "risk" in the financial markets has been in bonds, not stocks!

…which makes it puzzling that investors remain so enamored with Fixed Income and so disenchanted with U.S. equities.

THE PRUDENT SPECULATOR
Bonds Remain Stunningly Popular

While many think folks are infatuated with U.S. equities, data from the Investment Company Institute show that far more dollars have flowed out of domestic stock mutual funds/ETFs than have flowed in over the last three-plus years. Foreign stocks and bonds have been the beneficiaries of the exodus, a trend that persists in 2018.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	4/11/2018	4/4/2018	3/28/2018	3/21/2018	3/14/2018
Total Equity	5,213	-4,499	-11,676	-13,766	25,210
Domestic	3,776	-6,016	-12,377	-17,107	19,062
World	1,437	1,517	701	3,341	6,148
Hybrid	-1,099	-930	-1,314	151	-611
Total Bond	6,448	2,943	263	5,315	8,444
Taxable	7,144	3,053	137	4,546	7,741
Municipal	-696	-110	126	769	703
Commodity	1,120	547	-332	938	30
Total	11,683	-1,939	-13,059	-7,363	33,072

Source: Investment Company Institute

Investment Company Institute
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows
Millions, U.S. dollars

Period	Total LT MF and ETF	Equity			Hybrid	Bond			Commodity
		Total	Domestic	World		Total	Taxable	Municipal	
2015+2016+2017	736,895	207,386	-232,245	439,634	-97,258	611,742	532,119	79,621	15,020
2016+2017	621,912	105,922	-129,096	235,020	-78,936	582,021	521,142	60,877	12,903
2017	532,894	197,751	-42,058	239,811	-45,714	382,935	367,284	15,649	-2,080
2018 YTD	108,576	28,853	-54,192	83,046	-8,684	83,490	73,039	10,451	4,918

Note: Weekly fund flows are estimates based on reporting covering more than 98 percent of mutual fund and ETF assets, while actual monthly mutual fund net new cash flow and ETF net issuance data are collected and reported separately. Mutual fund data represent net new cash flow, which is new sales minus redemptions combined with net exchanges, while ETF data represent net issuance, which is gross issuance less gross redemptions. The primary difference is that net new cash flow excludes reinvested dividends and new issuance includes reinvested dividends. Data for mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs were excluded from the series.

Yes, bond owners do not have to endure the level of volatility associated with stocks, but plenty of paper losses have accrued to owners of “super-safe” 10-Year…

THE PRUDENT SPECULATOR
“Safe” 10-Year Treasuries Can Be Risky

We respect that those able to hold government bonds to maturity face no loss of principal (though inflation impacts purchasing power) and the 10-Year U.S. Treasury issuance in August 2016 offered a 1.50% annual coupon, but folks unwilling or unable to hold until 2026 will have endured a total return of -8.19% in 20 months if they sell today.

…and 30-Year U.S. Treasuries,…

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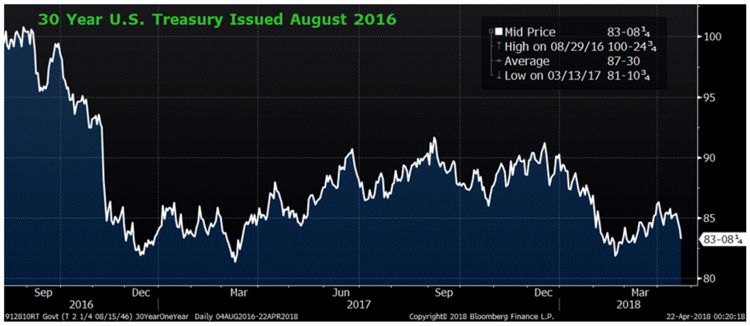
THE PRUDENT SPECULATOR
Ugly Returns for 30-Year Treasuries

We respect that those able to hold government bonds to maturity face no loss of principal (though inflation impacts purchasing power) and the 30-Year U.S. Treasury issuance in August 2016 offered a 2.25% annual coupon, but folks unwilling or unable to hold until 2046 will have endured a total return of -12.42% in 20 months if they sell today.



…while market history actually shows that stocks have performed admirably when Treasury prices are falling (and yields rising).

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THE PRUDENT SPECULATOR
Δ in 10-Year & Value/Growth

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.02%	543	12.0%	10.1%	11.2%	10.1%
More than 4.02%	542	14.9%	8.7%	13.2%	10.0%
3-Month Drop	521	14.0%	11.0%	11.8%	11.8%
3-Month Rise	560	13.0%	7.9%	12.5%	8.3%
6-Month Drop	521	13.6%	10.2%	11.5%	10.8%
6-Month Rise	554	13.2%	8.4%	12.7%	9.1%
12-Month Drop	533	12.4%	9.4%	10.3%	9.8%
12-Month Rise	530	14.4%	8.9%	13.9%	9.8%

From 06.30.27 through 12.31.17. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.02%	545	12.5%	10.1%	11.5%	10.4%
More than 4.02%	542	14.2%	8.3%	12.7%	9.3%
3-Month Drop	516	15.8%	12.7%	15.7%	11.9%
3-Month Rise	556	11.1%	5.8%	8.8%	7.8%
6-Month Drop	520	15.2%	12.0%	15.4%	11.4%
6-Month Rise	549	11.5%	6.2%	8.9%	8.2%
12-Month Drop	533	13.0%	10.3%	13.6%	10.0%
12-Month Rise	530	13.4%	7.4%	10.3%	9.1%

From 06.30.27 through 12.31.17. Subsequent 12-month return. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising rates will prove fatal for equities, but nine decades of returns data show that stocks in general, whether Small-Cap or Large-Cap, have performed admirably both concurrent with and subsequent to increases in the yield on the 10-Year Treasury, with Value stocks really asserting their dominance.

With our nerves of steel sharpened by numerous data points, not to mention more than three decades of personal experience, we will continue to simply do our jobs in continuing to admonish that the secret to success in stocks is not to get scared out of them. After all, we think a significant part of the value we provide our readers is to provide the perspective needed to keep them on the path to achieving their long-term investment objectives.

All that said, we have to always be braced for the inevitable downturns as we understand that there are constantly issues about which to be concerned, with drama in Washington, ongoing trade hostilities with China and the non-stop drumbeat of geopolitical developments all potential causes of the next big decline. There are never any guarantees that stock prices will appreciate or that short-term moves south will be quickly overcome, but every pullback, correction and Bear Market thus far has eventually been erased and then some, so we retain our optimism for the long-term prospects of our broadly diversified portfolios.

Stock Updates

Of course, we also remember that stocks represent ownership in businesses and it certainly doesn't hurt that valuations are generally quite a bit less expensive today than they were at the start of the year, as evidenced by the forward earnings multiple comparisons for *TPS* companies that have announced first quarter results thus far!

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THE PRUDENT SPECULATOR
Prices Down & Earnings Up

Stock Valuations: P/E Ratios Then and Now

Company	Symbol	Year End P/E	Year End Price	NTM EPS Est as of 12.29.17	Current P/E	Current Price	NTM EPS Est as of 4.20.18	YTD Price Change	NTM EPS Change
Delta Air Lines	DAL	9.9	$56.00	$5.66	8.6	$55.40	$6.41	-1%	13%
PNC Financial Services	PNC	14.6	$144.29	$9.86	13.3	$144.12	$10.81	0%	10%
JPMorgan Chase	JPM	12.9	$106.94	$8.28	12.2	$111.47	$9.16	4%	11%
Wells Fargo	WFC	13.3	$60.67	$4.57	11.2	$52.56	$4.68	-13%	2%
Bank of America	BAC	12.7	$29.52	$2.33	11.4	$30.26	$2.65	3%	14%
Celanese	CE	12.7	$107.08	$8.41	12.2	$111.70	$9.15	4%	9%
Johnson & Johnson	JNJ	17.7	$139.72	$7.90	15.4	$126.66	$8.24	-9%	4%
Goldman Sachs Group	GS	11.7	$254.76	$21.69	11.1	$251.96	$22.74	-1%	5%
Int'l Business Machines	IBM	11.0	$153.42	$13.99	10.6	$144.90	$13.67	-6%	-2%
Abbott Laboratories	ABT	19.7	$57.07	$2.89	20.2	$59.19	$2.93	4%	1%
BB&T Corp	BBT	14.0	$49.72	$3.56	12.9	$52.71	$4.07	6%	14%
KeyCorp	KEY	12.8	$20.17	$1.57	11.5	$19.86	$1.73	-2%	10%
Bank of New York Mellon	BK	13.0	$53.86	$4.14	13.0	$55.42	$4.26	3%	3%
Synchrony Financial	SYF	11.0	$38.61	$3.50	9.9	$35.20	$3.57	-9%	2%
Baker Hughes a GE Co	BHGE	26.7	$31.64	$1.18	34.4	$33.99	$0.99	7%	-16%
Schlumberger Ltd	SLB	28.4	$67.39	$2.37	29.4	$69.23	$2.35	3%	-1%
ManpowerGroup	MAN	15.9	$126.11	$7.96	11.0	$101.47	$9.25	-20%	16%
							Averages:	**-2%**	**6%**

Source: AFAM Capital using data from Bloomberg

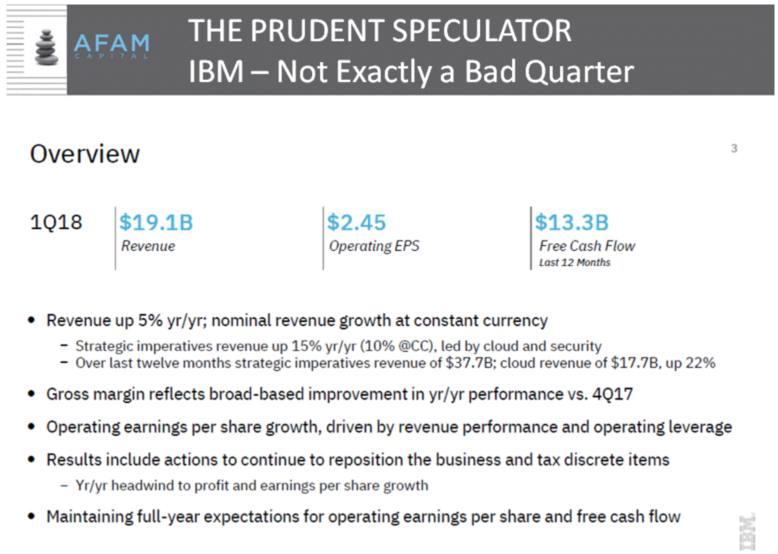
And speaking of Q1 numbers, Chris Quigley and Jason Clark provide updates on a dozen of our recommendations…

Global provider of computer solutions and advanced technologies leader **Int'l Business Machines** (IBM – $144.90) earned $2.45 per share in fiscal Q1 2018 (vs. $2.42 est.). IBM had sales of $19.1 billion (vs. $18.8 billion est.). While the company's earnings were decent compared to estimates, shares plunged 7.5% because IBM's gross margin was 43.7%, below the analyst consensus of 45.4%. IBM reaffirmed its existing fiscal 2018 adjusted EPS guidance of more than $13.80 per share. Free cash flow is expected to come in at $12 billion.

CFO Jim Kavanaugh said, "Our operating gross profit was up 3%, with broad-based improvement in our year-to-year gross margin performance versus last quarter. Our operating net income was up 2% and earnings per share was up 4%. Those are inclusive of a year-to-year headwind from the actions we took in the first quarter to continue better positioning our business for the long-term. Looking at the drivers of our operating earnings per share, on a year-to-year basis, we had contribution from revenue growth at constant margin as well as from operating leverage. The operating leverage was driven by pre-tax margin expansion, mitigated by a higher underlying tax rate year to year. A lower share count contributed to growth."

Mr. Kavanaugh offered the outlook, "We've been building and transforming our portfolio, our skills, our operating model to address what our enterprise clients need and what they value. Our results over the last few quarters reinforce that our clients value the integration of our innovative technologies together with our industry expertise to help them in their journey to AI, their journey to cloud. And they value our approach to the protection of their data and their privacy. In the first quarter, we built on the progress we made in the second half of last year. We improved our year-to-year revenue trajectory in Cognitive Solutions, in GBS, in Technology Services & Cloud Platforms, and we continue to grow our Systems revenue. We improved our year-to-year trajectory and operating gross margins. It's better by 70 basis points compared to the fourth quarter performance and better by 110 basis points when you adjust for the actions we took.

The margin trajectory improvement was broad-based, with operating leverage coming from mix and from improved productivity. We continued our investments in our One Cloud architecture, in emerging areas like blockchain, and more broadly, in skills and talent development. All together, we grew our revenue, operating net income, operating earnings per share, and free cash flow."



On the earnings news, IBM shares retreated into negative territory for the year, but we think that that will reverse if the company is able to continue executing on its Strategic Imperatives, including its fast-growing Cloud business. Also, Watson continues to expand its deployments, with Health Care, Internet of Things and Financial Services being among the most popular applications. We understand that investor focus likely will remain on overall top-line growth, but we think that Strategic Imperatives provides a long-term catalyst to a very inexpensive stock. IBM trades for a very low less-than-11 times forward earnings per share, while the dividend yield is now 4%. Our Target Price has been trimmed to $194.

National Oilwell Varco (NOV – $38.25) fell 6.5% last week after management offered Q1 operational updates that trailed analyst estimates. NOV said that it expects Q1 revenue to be $1.8 billion, which is below prior expectations, due to reduced offshore rig construction, customer delays and lower shipments of subsea equipment.

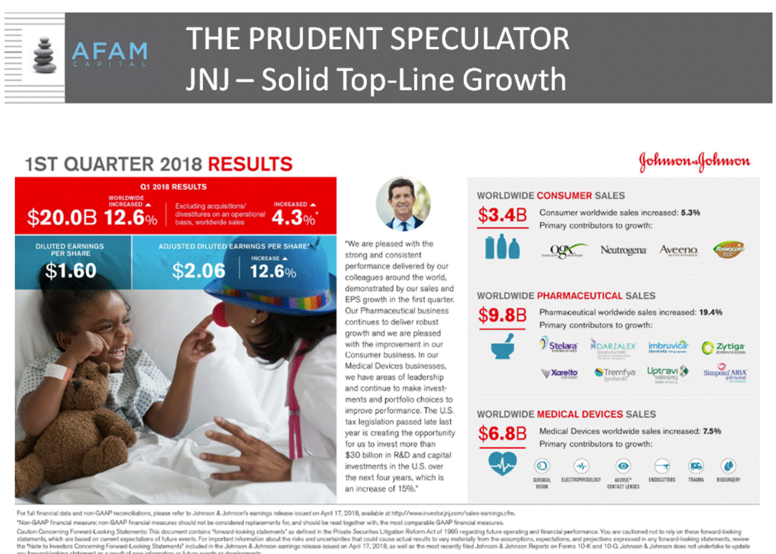
"Following an unusually protracted 2018 budgeting cycle, we've seen certain customers defer deliveries for existing capital equipment orders into the second quarter and delay making new order commitments until late into the first quarter," commented NOV CEO Clay Williams. "Unfortunately, all three segments will report sequentially lower revenues and, on a consolidated basis, we expect to report a GAAP operating loss of approximately $1 million and Adjusted EBITDA of approximately $160 million."

Looking ahead, Mr. Williams stated, "Nevertheless, industry fundamentals continue to improve, and we remain optimistic regarding the second quarter and the remainder of the year. With oil prices continuing to trend upward, and the U.S. rig count topping one thousand, we expect demand for NOV's critical products and services to resume growth as the year progresses."

The energy patch is often a turbulent place to invest, but we are optimistic about the firm right-sizing and optimizing its operations and costs, which should prove beneficial when the always-cyclical industry swings upward. We still believe in long-term energy demand growth with the global population expected to expand to 9 billion and economic output more than doubling by 2040. For NOV, this should create opportunities as energy companies move toward unconventional technologies, replace aging rig fleets, build out deepwater fleets and develop floating production systems. NOV will release final Q1 figures after the market close on April 26, along with a conference call for analysts and investors. Our Target Price has been pared to $45.

Pharmaceutical giant **Johnson & Johnson** (JNJ – $126.66) reported earnings per share of $2.06, versus the $2.00 estimate in fiscal Q1 2018. JNJ had sales of $20.0 billion (vs. $19.5 billion est.). JNJ expects to make changes to its supply chain, which will help "focus resources and increase investments in critical capabilities, technologies, and solutions necessary to manufacture and supply our product portfolio," according to CFO Dominic Caruso, "This will enable us to better meet patient and customer needs, make us more agile in the rapidly evolving healthcare landscape, and drive business growth. We expect our supply chain actions will include expanding our use of strategic collaborations and bolstering our initiatives to reduce complexity, improve cost competitiveness, enhance capabilities, and optimize our network. Discussions regarding specific future actions are ongoing and are subject to all relevant consultation requirements before they are finalized."

Mr. Caruso continued, "In total, we expect these actions to generate approximately $600 million to $800 million in annual pre-tax cost savings that will be substantially delivered by 2022. Further, we expect to record pre-tax restructuring charges of approximately$1.9 billion to $2.3 billion over the four to five-year period of this activity, which we will treat as special items. And as we discussed in January, the new U.S. tax legislation creates greater flexibility and opportunity to capitalize on our investments in innovation and R&D. In fact, we intend to invest more than $30 billion in the U.S., with capital investments in R&D between 2018 and 2021 representing an increase over the prior four years of more than 15%."



Mr. Caruso also offered a 2018 guidance update, "At the end of the quarter, we had approximately $17 billion of net debt, which consists of approximately $15 billion of cash and marketable securities and approximately $32 billion of debt. We now expect pre-tax operating margin improvement of approximately 150 basis points as compared to 100 basis points in our previous guidance. And our effective tax rate guidance for 2018, excluding special items, is approximately 16.5% to 18%, and that's no change from our prior guidance. Now turning to sales and earnings, our sales guidance for 2018 includes the impact of generics for PROCRIT and TRACLEER, as well as REMICADE biosimilars. However, we do not anticipate any impact from generic competition this year for ZYTIGA, RISPERDAL CONSTA, PREZISTA, and INVEGA SUSTENNA. As we've done for several years, our guidance will be based first on a constant currency basis reflecting our results from operations. So for the full-year 2018, we would be comfortable with your models reflecting an operational sales increase of 4% to 5% for the year. This would result in sales for 2018 on a constant currency basis of approximately $79.5 billion to $80.3 billion. This is higher than our January guidance based on strong Q1 performance. We now expect that operational sales growth, excluding the impact of acquisition and divestitures, will be between 3% and 4% for the year, which is also higher than our previous estimate. We would be comfortable with adjusted EPS guidance in the range of $7.80 to $8 per share on a constant currency basis, reflecting operational or constant currency growth of approximately 6.8% to 9.6%, which is consistent with our previous guidance."

The share price of JNJ has retreated by 13.5% from the high in January, as the company's underlying earnings (excluding management adjustments) fell in Q1 year-over-year and JNJ's earnings quality has declined. The company derived half of its sales gain from exchange rate fluctuations, while acquisitions and divestitures contributed to Worldwide Consumer segment sales growth. Despite the headwinds, we continue to like the product mix and that the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power. We are also constructive on the firm's recent acquisitions (despite the accounting games), which we believe add further diversifying potential. We continue to view the company as uniquely situated with unmatched depth and breadth in growing global health care markets, and with solid positions in drugs, medical devices and consumer products. Still, our Target Price has been trimmed to $152.

Staffing solutions group **ManpowerGroup** (MAN – $101.47) posted earnings per share of $1.72, versus the $1.64 estimate, in fiscal Q1 2018. MAN had total revenue of $5.5 billion, versus the $5.4 billion estimate. While the adjusted EPS was above the consensus, the GAAP EPS of $1.45 was a full $0.19 below the consensus estimate, but restructuring costs reduced EPS by $0.27. Shockingly, in our view, shares tumbled 15%, even as for the upcoming quarter, MAN sees $2.33 to $2.41 in EPS, compared with the $2.33 consensus estimate, with revenue near $5.5 billion, compared with a consensus estimate of $5.42 billion.

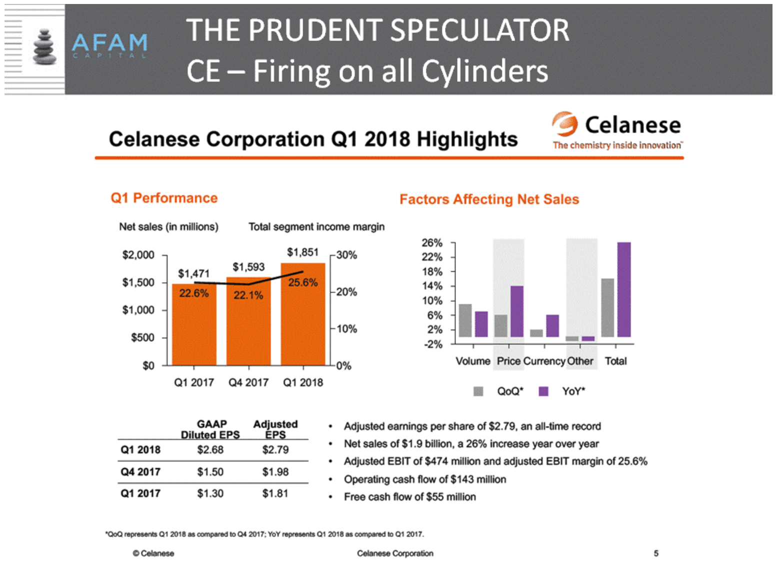
CEO Jonas Prising said, "We continued to see strong revenue growth in our Southern Europe segment with 9% growth in France and strong double-digit growth in Italy and Spain. We also see improving trends in the U.K. and certain other European markets and saw strong same-day basis, double-digit growth in our APME segment. Operating profit for the quarter was a $154 million, up 8% in constant currency. The continued strength of the global labor markets was confirmed by our second quarter ManpowerGroup employment outlook survey, which showed favorable hiring intent in 43 of 44 countries surveyed, with 17 countries showing stronger hiring intentions than in Q1. Access to human capital is key in this environment, and we are very well positioned to provide the necessary skill talent to meet the needs of our clients through our market leading global footprint and extensive portfolio of services and solution."

Though we were disappointed by the 7% drop in U.S. revenue during the quarter, we continue to like MAN's broad geographic footprint, wide range of offerings, good expense management and solid balance sheet. It is also good to finally see currency headwinds becoming tailwinds, and coupled with the momentum in its businesses and benefits from tax reform, the first part of 2018 is setting up to be very good from a macroeconomic standpoint. MAN shares currently trade at a forward P/E ratio of 11, and our Target Price has been fine-tuned to $144.

Shares of **Celanese** (CE – $111.70) jumped over 7% in price last week after the chemical and advanced material company reported strong Q1 results. CE posted adjusted EPS of $2.79, versus consensus analyst estimates of $2.33. Revenue of $1.85 billion topped forecasts of $1.67 billion. The strong performance was bolstered by higher prices and volumes in the engineered materials and acetyl chain segments. CE's acetyl intermediates business, which primarily produces acetic acid, continues to see solid results as prices have increased by 30% over the last year. We see strength in this segment continuing for the time being as capacity shutdowns in China should lead to a continued tighter acetic acid market, allowing CE to benefit from elevated prices and higher capacity utilization.

CE CEO Mark Rohr explained, "The first quarter of 2018 represents a combination of stronger industry fundamentals and the strength of our commercial models. In Engineered Materials, there is a continued need for customized solutions to reduce complexity for customers. The breadth of polymers and customer enabling competencies have made the business an important partner for our customers. In the Acetyl Chain, improving global supply and demand dynamics in the industry led by China, have raised base profitability levels. A very responsive commercial structure coupled with a global manufacturing footprint will continue to enable the Acetyl Chain in translating this momentum into earnings growth around the world. We believe that the improvement in the acetyls industry will be sustained in the longer term but expect some moderation in instantaneous utilization rates as we go through the year. The on-going success in our businesses gives us confidence that we can grow adjusted earnings per share by 20-25 percent in 2018."

Celanese also announced that it was increasing its quarterly dividend by 17% (from $0.46 per quarter to $0.54). CE shares now yield 1.9% "Increasing our dividend consistently is a key element of our strategy to maximize long-term value for our shareholders. Today's announcement marks the ninth consecutive year of dividend increases, and is both a reflection of our strong cash generation and confidence in the growth prospects for our business. During that period, the cash we have returned to shareholders through dividends has grown substantially to $241 million in 2017, versus $23 million in 2009," said Mr. Rohr. "Last year, we committed to increasing our dividend by at least 50% over the three-year period through 2019 with a targeted payout of $300 million or more in 2019. This increase is the second of three annual steps to meet that goal.”



With the solid performance and improved outlook, Celanese shares are currently trading at 12.1 times NTM adjusted earnings projections. We continue to like the stock and believe it can move higher still via geographic expansion and new application development. CE enjoys a cost advantage in many of its markets and we see the Advanced Engineered Materials business having attractive long-term growth potential. We like CE’s free cash flow generation and see it remaining healthy, allowing the firm to continue to build a strong financial base as well as buy back shares and increase dividend payouts. We have hiked our Target Price to $133.

Oilfield services company **Baker Hughes a GE Co** (BHGE – $33.99) earned $0.09 per share in fiscal Q1 2018 (vs. $0.06 est.). BHGE had revenue of $5.4 billion, versus the $5.4 billion estimate. The company reported $5.2 billion of orders and improvement in Oilfield Services, which more than offset declines in the Long-Cycle business. Shares rose 2.2% following the announcement.

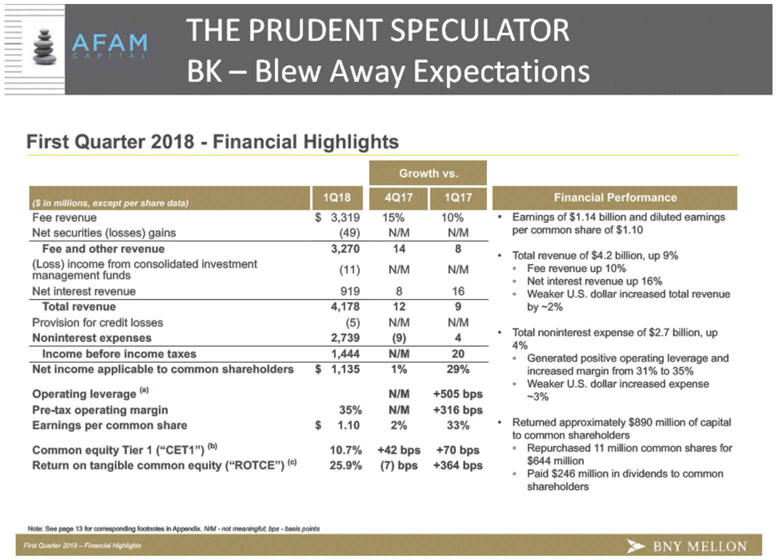
CEO Lorenzo Simonelli said, “In the oil market, we see global demand rising at a steady pace, driven by an improved GDP outlook for the United States and Europe. In Asia alone, strong economic growth is expected to add nearly 1 million barrels per day of demand in 2018. On the supply side, U.S. production grew to more than 10 million barrels per day with first quarter average production up 7% versus the fourth quarter of 2017, driven mostly by Shell. OPEC and Russia have committed to production cuts through the end of 2018. We have seen a draw on U.S. crude inventories that have pulled stocks closer to the five-year average. These factors have resulted in a market equilibrium, which we expect will keep crude prices relatively range bound in 2018. This recent price stability has resulted in a customer spend forecast that shows solid year-over-year growth for our short-cycle businesses, particularly, in North America, where operators continue to grow rig count and well counts. Internationally, we are seeing signs of activity increasing in certain geo markets, though these remain competitive. The offshore market remains subdued in the first quarter, however, we expect activity to increase through the year."

With BHGE's dividend yield north of 2.1% and crude oil prices having risen of late, we expect BHGE's business prospects to be in good shape for the foreseeable future. We like BHGE's international diversification and unique exposure to oil-related equipment including surface logging, drilling, pipeline operations, petroleum engineering and fertilizer solutions. The company also offers non-oil-related products including gas turbines, valves, pumps, generators and motors. Baker Hughes also has a relatively strong balance sheet ($5.6 billion of cash and $7.4 billion of debt) and mid-double-digit EPS growth estimates for the next three years (31 analysts cover the company). Our Target Price is now $46.

Shares of **Bank of New York Mellon** (BK – $55.42) enjoyed a great week, rising 7.5% following the financial giant's release of Q1 results. Adjusted earnings per share came in at $1.15, which was 19% better than investor expectations. Assets under custody/administration reached a record $33.5 trillion, which benefited from net new business and the favorable impact of a weaker U.S. dollar. The company had $1.9 trillion directly under management at the end of Q1. During Q1, BK repurchased 11 million of its common shares for $644 million and paid $246 million in dividends.

CEO Charles W. Scharf commented, "We delivered strong financial results this quarter, with earnings per common share up 33%. Earnings grew by 23%, excluding the impact of a lower tax rate and our continued capital return through buybacks, each of which contributed approximately 5%. Strong equity markets and higher interest rates were important drivers and, while we should remain beneficiaries of strong and growing markets over the long term, we are focused on continuing to increase our organic revenue growth."

Mr. Scharf continued, "Importantly, we saw franchise growth in several parts of the company, including foreign exchange trading, tri-party repo activity, collateral management, securities lending and liquidity services. Average deposit levels were up 6%, assets under custody and administration grew 9% to a record level, our assets under management saw solid inflows in actively managed strategies, securities on loan increased 39% and average long-term mutual fund balances at Pershing increased 12%…While increasing revenue growth and investing significantly in our technology platform remain strategic priorities, we continue to be disciplined across our total expense base and saw minimal growth in total expenses after adjusting for foreign exchange."



THE PRUDENT SPECULATOR

BK – Blew Away Expectations

First Quarter 2018 - Financial Highlights

($ in millions, except per share data)	1Q18	Growth vs. 4Q17	Growth vs. 1Q17
Fee revenue	$ 3,319	15%	10%
Net securities (losses) gains	(49)	N/M	N/M
Fee and other revenue	**3,270**	**14**	**8**
(Loss) income from consolidated investment management funds	(11)	N/M	N/M
Net interest revenue	919	8	16
Total revenue	**4,178**	**12**	**9**
Provision for credit losses	(5)	N/M	N/M
Noninterest expenses	**2,739**	**(9)**	**4**
Income before income taxes	**1,444**	**N/M**	**20**
Net income applicable to common shareholders	**$ 1,135**	**1%**	**29%**
Operating leverage [a]		**N/M**	**+505 bps**
Pre-tax operating margin	**35%**	**N/M**	**+316 bps**
Earnings per common share	**$ 1.10**	**2%**	**33%**
Common equity Tier 1 ("CET1") [b]	**10.7%**	**+42 bps**	**+70 bps**
Return on tangible common equity ("ROTCE") [c]	**25.9%**	**(7) bps**	**+364 bps**

Financial Performance

- Earnings of $1.14 billion and diluted earnings per common share of $1.10
- Total revenue of $4.2 billion, up 9%
  - Fee revenue up 10%
  - Net interest revenue up 16%
  - Weaker U.S. dollar increased total revenue by ~2%
- Total noninterest expense of $2.7 billion, up 4%
  - Generated positive operating leverage and increased margin from 31% to 35%
  - Weaker U.S. dollar increased expense ~3%
- Returned approximately $890 million of capital to common shareholders
  - Repurchased 11 million common shares for $644 million
  - Paid $246 million in dividends to common shareholders

Note: See page 13 for corresponding footnotes in Appendix. *N/M - not meaningful; bps - basis points*

First Quarter 2018 – Financial Highlights

BNY MELLON

We continue to like that BK is well capitalized and has a management team that is committed to cost containment and driving growth for the future. BK shares are currently trading at 13.0 times NTM adjusted earnings expectations. Our Target Price has been adjusted upward to $65.

Schlumberger Ltd (SLB – $69.23) reported earnings per share of $0.38, versus the $0.37 estimate, in fiscal Q1 2018. The oil services titan had sales of $7.8 billion, versus the $7.8 billion estimate. While the quarter met expectations on both the top and bottom lines, shares slumped just over a percent. The company reported Q1 capex of $454 million (est. $518.6 million) and expects capex for the full year to reach $2 billion ($2.16 billion est.). SLB's expected GAAP tax rate was 17.6% and cash taxes payable due to deferred foreign earnings is expected to be insignificant.

SLB CFO Simon Ayat said, "Looking forward, the ETR will be sensitive to the geographic mix of earnings between North America and the rest of the world. With the continued recovery in North America, we anticipate that the ETR will increase next quarter and over the course of the year. We generated $568 million of cash flow from operations. This is despite the consumption of working capital that we typically experience during Q1, which is driven by the annual payment associated with employee compensation. Our net debt increased $800 million during the quarter to $13.9 billion. We ended the quarter with total cash and investments of $4.2 billion. During the quarter, we spent $97 million to repurchase 1.4 million shares at an average price of $69.79."

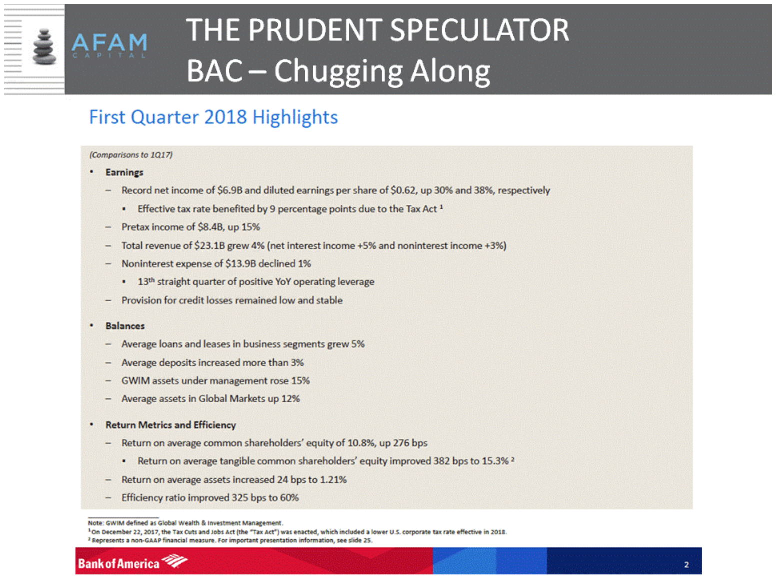
Patrick Schorn, EVP of New Ventures, added some color regarding the business environment, "Global crude stocks and days forward coverage is already well below the five-year average and bigger draws are expected from the current stock levels in the coming quarters. These anticipated stock draws are underpinned by a continued strong outlook for oil demand with global growth continuing to be projected between 1.5 million and 1.8million barrels per day in both 2018 and 2019, and with the current U.S. China trade war tension not expected to escalate into lower global growth at this stage. On the supply side, after three consecutive years of dramatic underinvestment in global E&P activity, the worldwide production base has the expected signs of weakening with noticeable year-over-year production declines appearing in several."

We continue to like that SLB has a dominant international franchise and we are enthused about the gains from its acquisition of Cameron, while the company has the most balanced exposures of the diversified service providers. We like management's attitude about evolving for the future and we see SLB not only surviving the turbulence in the oil patch but thriving from a sustained upturn. We are pleased to see the company's internal transformation and restructuring initiatives taking hold. While we also like a few other names in the space, we think SLB is the clear technology leader with an important reputation for consistent execution. We are fond of the firm's ability to generate solid free cash flow and the 2.9% dividend yield the shares currently offer. That said, our Target Price for SLB is now $104.

Shares of **Bank of America** (BAC – $30.26) ended last week higher following a solid Q1 earnings release. The financial giant said that adjusted EPS came in at $0.62 versus analyst forecasts that called for $0.59. Q1 results saw modest growth in net interest income and moderate growth in average loans. We were constructive on the firm's non-interest income growth and controlled expenses during the period. BAC also showed continued good credit quality and further loan loss reserve release. The bank's efficiency ratio improved to 60%, and capital ratios remain strong.

CEO Brian Moynihan commented, "Our responsible growth model continues to deliver consistent results. Strong client activity, coupled with a growing global economy and solid U.S. consumer activity, led to record quarterly earnings. We grew loans in our business segments by $45 billion and increased deposits by $41 billion. We continue to invest in new capabilities in our mobile banking app, the expansion and renovation of our financial centers, and the hiring of additional client relationship professionals. We believe these investments, and our focus on operational excellence, will drive sustainable growth over time."

CFO Paul Donofrio added, "This was a strong quarter. Revenue was up 4% year-over-year and expenses were down 1%, making this the 13th consecutive quarter of positive operating leverage. We also carefully managed credit costs. This enabled us to deliver double-digit EPS growth. We also returned $6.1 billion in capital to our shareholders through dividends and common stock repurchases."



With many of the problems of the past decade seemingly in the rear-view mirror, BAC has numerous opportunities to capitalize, from its large deposit base and consumer lending franchise to its "thundering herd" of Merrill Lynch's financial advisors and wealth managers. We like that credit quality continues to improve, and while expenses are being controlled, BAC is investing in digital capabilities and enhancing the overall client experience. With the shares trading for just 11.4 times NTM estimated earnings, and the bottom line likely to benefit from higher interest rates, we think BAC is very attractive. While shares currently yield just 1.6%, we expect the dividend rate to increase in the near term and for BAC to continue to buy back its common stock in the open market. Our Target Price for BAC has been lifted to $38.

Shares of regional bank **Keycorp** (KEY – $19.61) ended the week up over 3% as interest rates started to inch up again and the company reported well-received Q1 financial results. KEY announced adjusted EPS of $0.38, which was in-line with consensus analyst estimates. The bank benefited from a lower tax rate and growth in both non-interest income and net-interest income. Return on tangible common equity improved to 14.9% from 13.6% during the previous quarter.

CEO Beth Mooney commented, "First quarter was a good start to the year, with continuing momentum in our core businesses, as we grew and expanded relationships with our targeted clients. Revenue increased over 3% from the same period last year, driven by a higher net interest income, solid loan growth and stronger fee income. The growth in average loans this quarter was broad-based and primarily in commercial and industrial balances, which were up in excess of 3% linked quarter, as we continue to grow and expand our middle-market relationships."

"Our fee-based businesses continue to demonstrate our ability to offer a full range of solutions to our clients, including off-balance sheet financing alternatives that helped drive our investment banking and debt placement business to a record first quarter level. Expenses this quarter reflect expected seasonality, the acceleration of certain technology costs, and investments.

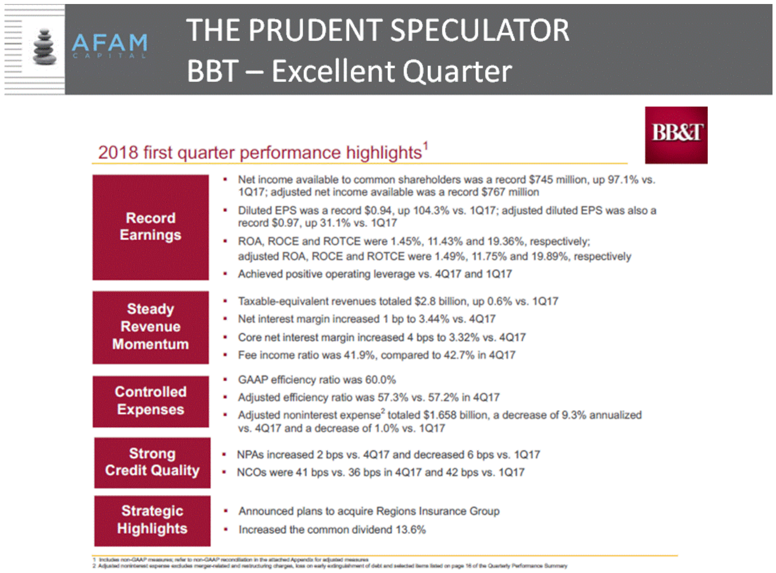
Given our outlook for revenue growth and lower expenses for the rest of this year, we expect to make meaningful progress toward our long term efficiency ratio target of 54% to 56%," Ms. Mooney concluded.

We continue to like Keycorp and think that the Q1 results show directionally what we want to see, except for a bit higher expenses. That said, we were pleased to hear management say it was committed to hitting full-year 2018 expense targets. We also believe that the bank's efficiency can continue to improve as it benefits from the full integration of its recent acquisitions. Shares currently trade at 11.5 times NTM adjusted earnings expectations and carry a 2.1% dividend yield. Our Target Price has been bumped up to $27.

Shares of regional banking powerhouse **BB&T Corp** (BBT – $52.71) rose by approximately 1.5% last week, supported by what looked to be a breakout quarterly report and rising interest rates. Core Q1 EPS came in at $0.97, versus consensus Street estimates of $0.92. While forward-looking loan growth remains challenged, we liked that the company delivered lower-than-expected expenses and management believes overall total revenue is promising for full-year 2018.

CEO Kelly King stated, "We had a record quarter with strong expense control and lower tax expense. Our returns on average assets and average common shareholders' equity were the highest they have been since before the credit crisis. Total noninterest expenses for the quarter were $1.69 billion, down $169 million from the prior quarter. Excluding merger-related and restructuring charges and one-time expenses in the prior quarter related to the passage of tax reform, noninterest expense was down $39 million reflecting strong expense control and continued progress from our optimization efforts."

Mr. King continued, "During the first quarter we were pleased to announce a 13.6% increase in our common stock dividend to share tax reform benefits with our shareholders. This follows actions taken in December of last year when we made additional investments in our associates and communities. We also increased our minimum hourly pay rate from $12 to $15 per hour. Earlier this month, we announced plans to acquire Regions Insurance. The acquisition will be a great strategic fit and increase our retail insurance network in core BB&T markets across the Southeast and newer markets in Texas , Louisiana and Indiana."



We like that BBT continues to experience a strong adoption rate of its customizable digital banking platform and we remain fans of the company's relatively conservative loan underwriting and its efforts to diversify its revenue stream. While shares are off to a good start (up more than 6%) in 2018, we see additional upside potential on the back of a solid economy, rising interest rates, cost controls and benefits from tax reform. BBT yields 2.5% and trades at 13 times NTM consensus earnings estimates. Our Target Price for BBT has been boosted to $64.

Despite strong Q1 overall financial results, shares of **Goldman Sachs** (GS – $251.96) dipped 1.5% last week. The Wall Street titan turned in a bottom-line beat that was more than 25% higher than consensus analyst estimates. Goldman said adjusted EPS came in at $6.95, versus a $5.56 analyst projection.

The solid first quarter dispels doubts about Goldman's trading prowess, as well as the potential of some newer initiatives that had not been garnering much investor enthusiasm. GS realized strength from its investing and lending segment during the period, and an increase in volatility and global economic growth led to increased client activity and was the main driver behind the trading revenue rebound. Also worth noting, net interest income related to Goldman's banking business increased to about $550 million from $500 million the previous quarter. While currently smaller contributors to earnings, the company's deposit base and digital retail business are increasingly important to the company's investment narrative.

"Solid performance across our businesses produced strong returns in the first quarter. We are well positioned to serve our clients as the global economy continues to show strength and central banks unwind certain aspects of policy stimulus. We are also broadening our client base and further diversifying our businesses to drive more revenue and earnings growth for the firm," said CEO Lloyd Blankfein.

We view the revenue outlook as mostly favorable given rising GDP growth, a higher investment banking pipeline, $5 billion in growth initiatives and a cyclically improving trading backdrop. While we weren't excited about some elevated expenses during Q1, we think we will see improvements in this area as the year moves forward. We continue to be long-term fans of GS and are constructive on the name given the prospects for stronger revenue growth, operating leverage, potential de-regulatory policies and a potentially higher earnings multiple than the current forward P/E of 11. Our Target Price for GS currently stands at $291.