MARKET COMMENTARY MONDAY, APRIL 30, 2018

EXECUTIVE SUMMARY

TPS 619 – May Edition of *The Prudent Speculator* Coming Wednesday
Market Drama – S&P Goes Nowhere
High-Water Mark – CAT Pesimists Fail Basic Arithmetic
Buckingham on *Fox Business News* – Perspective on 3% Yield on 10-Year Treasury
Myth Debunking – 2-10 Spread Contraction Hardly Fatal for Stocks
Econ News – No Recession Imminent
Earnings – Profit Outlook Remains Strong
Valuations – Prices Down & Earnings Up
Stock News – Updates on MSFT, T, INTC, BHE, DLR, WHR, SHPG, FITB, ONB, GT, ZBH, RCL & NSC

Market Review

Work is underway on the May edition of *The Prudent Speculator*. If all goes according to plan, we expect to publish *TPS 619* on Wednesday, May 2, with this month's issue taking a look at Market Seasonality as well as Value vs. Growth Performance Comparisons, while we have one first-time recommendation. We will also be posting a new Target Price listing to theprudentspeculator.com this evening.

Certainly, there was plenty of drama last week (heck, the Korean War ended, or at least pledges were made to end it at the historic summit between North Korea's Kim Jong Un and South Korea's Moon Jae-in!), but the U.S. markets ended the five trading days near the breakeven line. In fact, the S&P 500 actually produced a 0.00% total return. Happily, Value did a little better than Growth, with the Russell 3000 Value index gaining 0.09%, compared to a 0.27% decline for the Russell 3000 Growth index, and just about all of the capitalization-weighted broad market indexes outperformed the Dow Jones Industrial Average. That price-weighted benchmark was weighed down by sizable losses in high-priced components like 3M and **Caterpillar** (CAT – $144.72).

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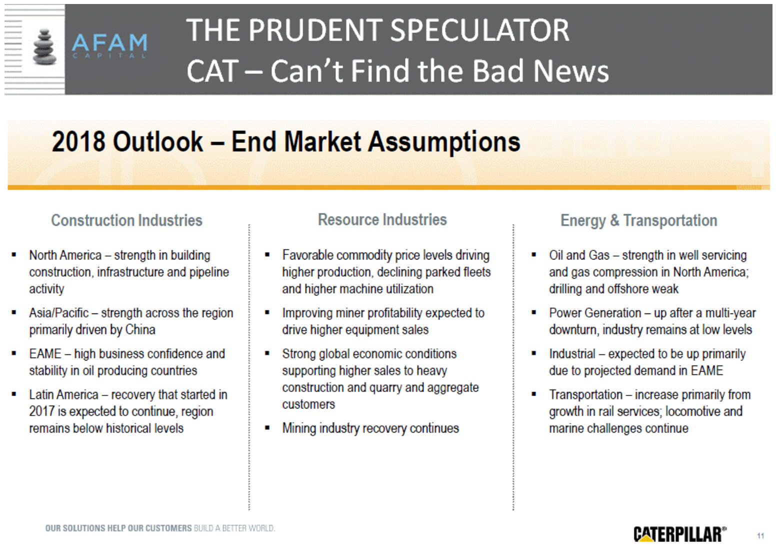
Efficient Markets at Work

We understand that investors often have itchy trigger fingers, but the sharply negative mid-day reaction on April 24 to the conference-call comment from Caterpillar that spectacular Q1 results (EPS of $2.82 vs. estimates of $2.12) would be the “high-water mark” for 2018 was very perplexing. After all, simple math suggests Q1 would have to be best, given that full-year EPS guidance was raised “only” to $10.25 to $11.25.

Looking at the construction equipment giant, despite lifting its full-year outlook and reporting adjusted EPS that were 33% better than consensus analyst estimates, and top-line results that were easily better than forecasts, shares of Caterpillar plunged on Tuesday, reversing an initial very positive response to its Q1 financial results release on the now-famous seemingly innocuous “high-water mark” conference call comment from CAT CFO Brad Halverson.

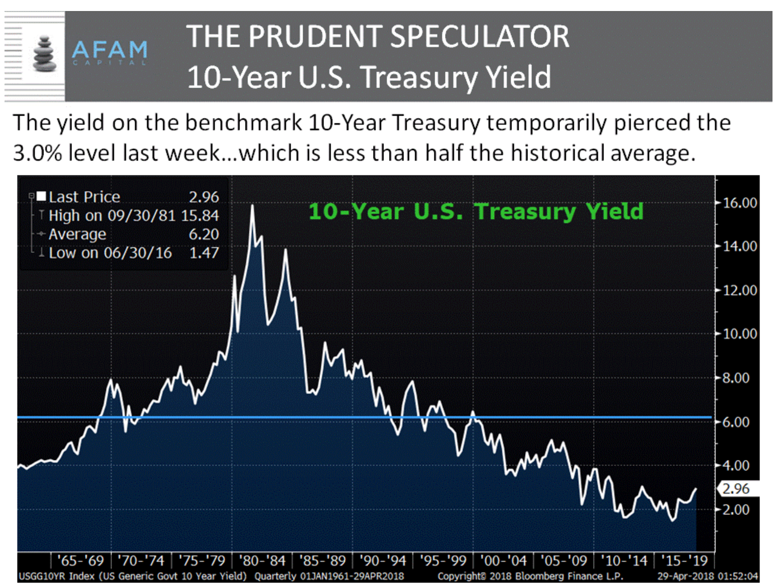
CAT’s numbers were nothing short of phenomenal as the company reported Q1 adjusted EPS of $2.82, versus investor expectations of $2.12, while revenue came in at $12.86 billion (est. $12.04 billion). The biggest driver of the beat was operating leverage, particularly in construction and mining. Additionally, Caterpillar announced that its backlog of business increased 18% year-over-year to $17.5 billion.

Looking ahead, in January, Caterpillar provided a 2018 profit outlook range of $7.75 to $8.75 per share, but management just upped its projections by a whopping $2.00 to a range of $9.75 to $10.75, primarily due to growing demand for products and services. The outlook includes about $400 million of restructuring costs, unchanged from the previous guidance, putting the revised projection for adjusted profit at $10.25 to $11.25 per share. “Based on our strong first-quarter results and higher demand across all regions and most end markets, we are raising our outlook for 2018. We will continue to make targeted investments in expanded offerings and services, consistent with our strategy for long-term profitable growth,” said CAT CEO Jim Umpleby.



With the new management projections out well before the conference call started, it would seem evident that many investors somehow failed basic math – if the mid-point of guidance was $10.75 and Q1 profits came in at $2.82 per share, that leaves $7.93 of EPS for the balance of the year, or $2.64 per quarter. We were left shaking our heads at the market reaction, especially as we chose to boost our Target Price for CAT to $181 on the fantastic Q1 report.

Of course, short-term market movements are often puzzling, so we are very much used to gyrations that don't make a lot of sense. For example, there was plenty of ink spilled last week about the ominous implications of the yield on the 10-Year U.S. Treasury breaking through the 3% level. True, round numbers are psychologically important (and we are now back below 3%), but the average yield on that benchmark instrument has been 6.20% going back to the 1960s,…



…and as your Editor stated in an appearance last week on *Fox Business News* (http://video.foxbusiness.com/v/5776349875001/?#sp=show-clips), recent market history does not support the assertion that rising rates are bad for stocks,…

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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					
-1.03	28.11	16.50	39.80	INDU Index	Dow Jones Industrial Average
3.45	29.73	8.97	46.66	CCMP Index	NASDAQ Composite Index
0.44	21.68	12.04	29.95	RIY Index	Russell 1000 Index
1.73	14.63	21.28	35.34	RTY Index	Russell 2000 Index
0.54	21.12	12.72	30.35	RAY Index	Russell 3000 Index
0.44	21.82	11.95	29.91	SPX Index	S&P 500 Index
2.43	30.21	7.07	37.87	RLG Index	Russell 1000 Growth Index
-1.59	13.64	17.33	22.27	RLV Index	Russell 1000 Value Index
3.32	22.14	11.28	38.87	RUO Index	Russell 2000 Growth Index
0.02	7.82	31.72	31.70	RUJ Index	Russell 2000 Value Index
2.50	29.58	7.38	37.94	RAG Index	Russell 3000 Growth Index
-1.47	13.17	18.38	22.96	RAV Index	Russell 3000 Value Index
2.91	27.43	6.89	35.20	SGX Index	S&P 500 Growth Index
-2.15	15.35	17.39	23.48	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.29	3.57	0.79	-2.47	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.35	3.53	0.75	-2.58	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-0.86	8.17	0.82	11.26	PONAX Equity	Pimco Income Fund-A
0.73	2.39	0.81	1.05	VTABX Equity	Vanguard Ttl Intl Bnd-Adm
-2.12	3.10	0.76	-1.82	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-2.16	5.13	0.73	0.40	PTTRX Equity	Pimco Total Return Fund-Inst
-0.56	7.36	0.63	10.93	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.81	2.02	-0.01	0.64	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-1.52	4.53	0.21	-0.94	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.34	4.36	0.63	2.68	DODIX Equity	Dodge & Cox Income
-0.99	3.79	0.51	1.44	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.39	1.89	0.07	1.90	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 4.27.18. 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, Netflix 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!

…while there has been nothing troubling, on average over the past nearly six decades, about a 3% yield on the 10 Year.

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Treasury Rates & Next 12 Month Returns

Treasury Yields and Average Equity Returns

Value Stocks

10-Year % Yield	<2	2 to 2.75	2.75 to 3.5	3.5 to 4.25	4.25 to 5	5 to 5.75	5.75 to 6.5	6.5 to 7.25	7.25 to 8	8 to 8.75	>8.75
COUNT	29	58	60	124	77	59	72	59	73	47	109
Mean NTM TR	**26.9%**	**22.8%**	**17.5%**	**15.1%**	**7.2%**	**9.6%**	**9.6%**	**13.3%**	**23.1%**	**19.3%**	**24.5%**
Min NTM TR	-15.5%	-8.7%	-12.7%	-51.6%	-32.3%	-29.9%	-29.6%	-28.0%	-19.7%	-24.5%	-8.6%
Max NTM TR	46.0%	71.1%	84.6%	66.8%	49.3%	53.9%	48.1%	52.8%	60.1%	52.4%	75.3%
# Neg	3	9	16	26	30	20	19	19	7	10	5
# Pos	17	49	44	98	47	39	53	40	66	37	104
+/- Ratio	5.7	5.4	2.8	3.8	1.6	2.0	2.8	2.1	9.4	3.7	20.8

Growth Stocks

10-Year % Yield	<2	2 to 2.75	2.75 to 3.5	3.5 to 4.25	4.25 to 5	5 to 5.75	5.75 to 6.5	6.5 to 7.25	7.25 to 8	8 to 8.75	>8.75
COUNT	29	58	60	124	77	59	72	59	73	47	109
Mean NTM TR	**21.2%**	**18.6%**	**17.9%**	**9.9%**	**7.9%**	**9.0%**	**0.5%**	**1.5%**	**16.1%**	**14.7%**	**19.0%**
Min NTM TR	-13.0%	-7.1%	-8.7%	-39.4%	-36.5%	-28.2%	-35.9%	-48.1%	-36.6%	-17.6%	-22.6%
Max NTM TR	39.5%	44.9%	58.3%	52.7%	57.2%	58.6%	36.0%	44.6%	59.5%	54.3%	83.8%
# Neg	3	4	10	27	22	23	32	25	10	7	25
# Pos	26	54	50	97	55	36	40	34	63	40	84
+/- Ratio	8.7	13.5	5.0	3.6	2.5	1.6	1.3	1.4	6.3	5.7	3.4

Source: AFAM Capital Using Data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

No doubt, anything can happen, and the chart above illustrates that there have been more than a few negative 12-month-return periods mixed in with the gains, but the weight of the evidence is overwhelming in favor of staying the course in stocks, no matter the Treasury yield, for those who share our long-term investment time horizon.

Market history states the same about another bogeyman that caused some consternation last week, namely the shrinking 2-10 spread and its potential of calling the next recession. To be sure, when the yield on the 10-Year U.S. Treasury less the yield on the 2-Year U.S. Treasury has dipped below zero in the past, the economy (as well as the stock market) has often run into trouble, but the current reading of +0.47% is still a long way from negative,…

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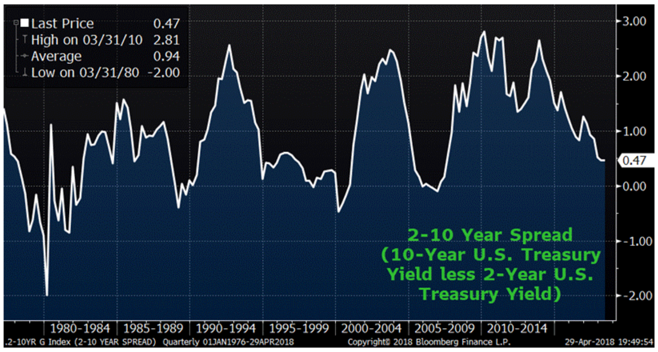
2-10 Year Spread

Given that a dip below zero in the 2-10 Spread (the yield on the benchmark 10-Year U.S. Treasury less the yield on the 2-Year U.S. Treasury) has preceded recessions in the past, many investors have found new reason to be concerned, even as the current reading is +0.47.



…and the historical actual average next-12-month return figures should provide comfort (and dare we say excitement),…

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2-10 Spread & Next 12 Month Returns

2-10 Treasury Spread and Average Equity Returns

Value Stocks

2-10 Spread %	<0	0 to 0.25	0.25 to 0.5	0.5 to 0.75	0.75 to 1	1 to 1.25	1.25 to 1.5	1.5 to 1.75	1.75 to 2	>2
COUNT	69	52	48	35	48	49	45	31	30	82
Mean NTM TR	**16.3%**	**8.9%**	**23.0%**	**24.5%**	**18.9%**	**18.6%**	**14.4%**	**10.8%**	**6.3%**	**18.4%**
Min NTM TR	-24.5%	-23.2%	-7.8%	-32.3%	-38.5%	-15.9%	-38.1%	-44.9%	-51.6%	-20.4%
Max NTM TR	72.7%	67.6%	62.0%	75.3%	62.2%	41.6%	45.9%	40.9%	78.2%	84.6%
# Neg	10	13	3	2	10	8	9	10	13	10
# Pos	59	39	45	33	38	41	36	21	17	72
+/- Ratio	5.9	3.0	15.0	16.5	3.8	5.1	4.0	2.1	1.3	7.2

Growth Stocks

2-10 Spread %	<0	0 to 0.25	0.25 to 0.5	0.5 to 0.75	0.75 to 1	1 to 1.25	1.25 to 1.5	1.5 to 1.75	1.75 to 2	>2
COUNT	69	52	48	35	48	49	45	31	30	82
Mean NTM TR	**10.3%**	**12.9%**	**21.4%**	**14.2%**	**11.2%**	**12.0%**	**10.2%**	**8.5%**	**4.2%**	**15.2%**
Min NTM TR	-35.9%	-17.4%	-10.3%	-36.5%	-39.1%	-23.8%	-29.1%	-35.8%	-39.4%	-27.4%
Max NTM TR	83.8%	69.0%	54.5%	76.3%	56.0%	37.7%	38.9%	39.5%	52.4%	55.9%
# Neg	27	11	4	7	18	10	9	9	10	4
# Pos	42	41	44	28	30	39	36	22	20	78
+/- Ratio	1.6	3.7	11.0	4.0	1.7	3.9	4.0	2.4	2.0	19.5

Source: AFAM Capital Using Data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

…while the latest economic numbers were actually upbeat,…

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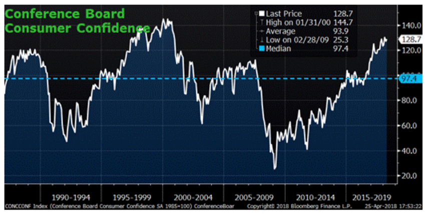
Consumers Fairly Optimistic



Rising interest rates should not help the housing market, all else equal, but the latest report on new home sales for March came in better than expected, climbing 4.0% to a seasonally adjusted annual rate of 694,000 units, with the median price moving up 3.5% to $337,200. Adding to the near-term optimism, the Conference Board's measure of Consumer Confidence for April edged up to a better-than-expected 128.7.

…including the initial estimate of first quarter GDP growth coming in at 2.3%, better than the expected 2.0%, on Friday.

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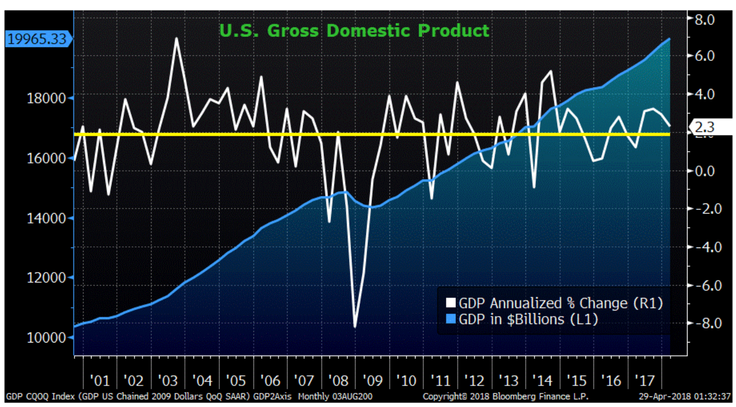
Solid U.S. Economic Growth

Uncle Sam estimates Q1 '18 GDP growth at a decent 2.3%, down from 2.6% calculated for Q4 '17, but above the 1.9% average rate since 2000.



We respect that economic conditions can change quickly, but we don't see a recession on the horizon, and we think corporate profits are poised to grow handsomely this year and next.

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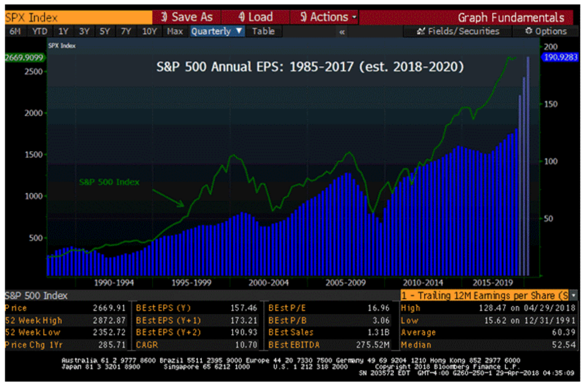
Stock Prices Often Follow Earnings

Market history shows that sustained market downturns usually coincide with a recession in corporate profits. No guarantees, of course, but the outlook for earnings, especially given the recent tax cuts, is favorable.



Finally, as we said last week, it certainly doesn't hurt that valuations are generally less expensive today than they were at the start of the year, as evidenced by the forward earnings multiple comparisons for a broad selection of *TPS* companies that announced first quarter results last week!

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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 4.27.18	YTD Price Change	NTM EPS Change
Synchrony Financial	SYF	11.0	$38.61	$3.50	9.3	$33.11	$3.57	-14%	2%
Schlumberger Ltd	SLB	28.4	$67.39	$2.37	29.9	$69.08	$2.31	3%	-3%
ManpowerGroup	MAN	15.9	$126.11	$7.96	10.4	$96.90	$9.28	-23%	17%
Alaska Air Group	ALK	11.1	$73.51	$6.63	11.7	$66.02	$5.66	-10%	-15%
Old National Bancorp	ONB	13.6	$17.45	$1.28	13.5	$17.50	$1.29	0%	1%
Kimberly-Clark	KMB	18.1	$120.66	$6.67	14.9	$104.51	$7.00	-13%	5%
Whirlpool	WHR	10.3	$168.64	$16.33	9.6	$157.75	$16.44	-6%	1%
Corning	GLW	17.3	$31.99	$1.84	14.8	$27.23	$1.84	-15%	0%
Fifth Third Bancorp	FITB	14.1	$30.34	$2.15	13.7	$33.83	$2.48	12%	15%
Biogen	BIIB	13.1	$318.57	$24.34	11.5	$276.80	$24.05	-13%	-1%
Verizon Communications	VZ	13.5	$52.93	$3.92	11.2	$51.57	$4.59	-3%	17%
Caterpillar	CAT	18.8	$157.58	$8.36	13.9	$144.72	$10.39	-8%	24%
Amgen	AMGN	13.5	$173.90	$12.84	13.0	$177.46	$13.64	2%	6%
Capital One Financial	COF	11.0	$99.58	$9.05	8.9	$91.72	$10.30	-8%	14%
Comcast	CMCSA	18.5	$40.05	$2.17	12.9	$31.81	$2.47	-21%	14%
Goodyear Tire & Rubber	GT	8.3	$32.31	$3.89	6.7	$25.50	$3.81	-21%	-2%
Norfolk Southern	NSC	20.0	$144.90	$7.23	16.6	$146.62	$8.82	1%	22%
AVX Corp	AVX	24.7	$17.30	$0.70	19.6	$14.63	$0.74	-15%	6%
Qualcomm	QCOM	17.3	$64.02	$3.70	15.9	$51.11	$3.20	-20%	-13%
Benchmark Electronics	BHE	17.2	$29.10	$1.69	17.6	$26.65	$1.51	-8%	-11%
Trinity Industries	TRN	28.6	$37.46	$1.31	22.8	$31.88	$1.40	-15%	7%
Axis Capital Holdings Ltd	AXS	10.8	$50.26	$4.66	12.9	$59.64	$4.62	19%	-1%
Zimmer Biomet Holdings	ZBH	14.5	$120.67	$8.34	15.0	$116.92	$7.80	-3%	-6%
Newmont Mining	NEM	28.8	$37.52	$1.30	25.3	$40.66	$1.61	8%	23%
International Paper	IP	14.3	$57.94	$4.06	10.1	$52.58	$5.21	-9%	28%
General Motors	GM	6.8	$40.99	$6.05	6.0	$37.65	$6.28	-8%	4%
Royal Caribbean Cruises Ltd	RCL	13.7	$119.28	$8.73	12.5	$111.82	$8.97	-6%	3%
Microsoft	MSFT	23.7	$85.54	$3.62	24.4	$95.82	$3.93	12%	9%
Intel	INTC	13.9	$46.16	$3.32	13.6	$52.73	$3.86	14%	16%
Exxon Mobil	XOM	20.1	$83.64	$4.16	15.5	$77.79	$5.01	-7%	20%
	Source: AFAM Capital using data from Bloomberg						Averages:	-6%	7%

While we always would like to see our stocks appreciate in price to reflect better outlooks for future profitability, the consolation prize thus far in 2018 is that valuations generally have become significantly less expensive as earnings estimates have increased markedly.

Stock Updates

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

Computing giant **Microsoft** (MSFT – $95.82) reported earnings per share of $0.95, versus the $0.85 estimate, in fiscal Q3 2018. MSFT had sales of $26.8 billion (vs. $25.8 billion est.). Despite rising more than 3% after hours on Thursday afternoon, shares 'only' inched up 0.9% in

Friday's trading. Microsoft benefitted from solid performance in its cloud computing segment, with substantial optimism in the unit for the foreseeable future.

CEO Satya Nadella said, "The intelligent cloud and intelligent edge represents a tremendous opportunity for our customers. It comes with a responsibility to ensure trust in technology. We are working to instill this trust in three key areas. The first is privacy. We recognize that privacy is a fundamental human right, and we have consistently acted accordingly. Our success is grounded in our customers' success. We have been working towards the May 25th GDPR implementation date since 2016 with hundreds of engineers across the company working on end-to-end privacy architecture, and we'll ensure that all our products and services are GDPR compliant. For customers, we will provide robust tools backed by our contractual commitments to help them comply with GDPR. In fact, for most customers it will be more effective and less costly to host their data in Microsoft's GDPR-compliant cloud than to develop and maintain GDPR compliance tools themselves."

Mr. Nadella continued, "In response to escalating cyber attacks around the world, we are leading a bold initiative to defend and protect our customers. We recently led a coalition of 34 global technology and security companies in signing the Cybersecurity Tech Accord. The accord is an important first step by the industry to help create a safer and more secure online environment for everyone. Finally, we recently established the AI and Ethics in Engineering and Research Committee at Microsoft to ensure we always advance AI in an ethical and responsible way to benefit our customers and the broader society. This includes new investments in technology to detect and address bias in AI systems. Microsoft stands for trust, and this will continue to be a differentiating focus for us moving forward."

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MSFT – Tech Giant's Sensational Growth

Q3 Financial Summary

FY18 Q3	(billions, except per share and GM %)	Growth	CC growth
Productivity and Business Processes	$9.0	17%	14%
Intelligent Cloud	$7.9	17%	15%
More Personal Computing	$9.9	13%	11%
Revenue	$26.8	16%	13%
Gross margin	$17.6	16%	13%
Gross margin percentage	65%	0 pts	
Operating income	$8.3	23%	20%
Operating income percentage	31%	2 pts	
Net income	$7.4	35%	31%
Diluted earnings per share	$0.95	36%	31%

Includes non-GAAP CC growth. See appendix for details regarding constant currency ("CC") reconciliation.
All growth comparisons in this presentation relate to corresponding period of last fiscal year unless otherwise noted.
Numbers may not foot due to rounding.

CFO Amy Hood offered her outlook, "Assuming the macro environment remains consistent, many of the key drivers of our business should remain intact. Revenue growth will continue to be driven by the transition to cloud services. And within our commercial business, strong execution and our differentiated hybrid position should drive continued high teens growth in our server product and cloud services revenue KPI. Office 365, Dynamics 365 and LinkedIn should also continue to drive double-digit revenue growth in our Productivity and Business Processes segment. The gross margin percentage of every commercial cloud service will continue to improve, with more improvement in Azure IaaS and PaaS consumption-based services and less improvement in our per user SaaS services. While we expect continued improvement in the overall commercial cloud gross margin, the revenue mix shift to Azure will moderate the rate of improvement relative to FY 2018. We will continue to grow our investment and capital expenditures to meet the growing demand for our cloud services."

Ms. Hood also noted that the new U.S. tax rules will not help Microsoft much going forward from their fiscal 2017 rate of 15%, "We continue to expect the full year FY 2019 effective tax rate to be slightly below the new U.S. corporate tax rate of 21%, with variability across the quarters due to the mix of cloud versus license revenue and the timing of equity vests."

While the stock has been on a tear and positive operational momentum seems unlikely to abate in the near term, and we expect to hold this high-quality name a while longer, we wouldn't rule out taking some of our terrific gains off the table as it has swelled again to all-time highs. MSFT's valuation, including a price-to-forward earnings ratio of 24.5, isn't cheap by some measures, yet we remain attracted to the solid dividend yield near 1.8% and terrific balance sheet. Analysts, for their part, expect the company's EPS growth rate to be at least 6% for each of the next three years, with earnings growing from $3.08 in fiscal 2017 (reported) to an estimated $4.53 in fiscal 2020. Our Target Price for MSFT has been hiked again to $103.

Integrated telecom services firm **AT&T** (T – $33.04) posted earnings per share of $0.85, versus the $0.88 estimate in fiscal Q1 2018. T had total revenue of $38.0 billion, versus the $39.4 billion estimate. Shares fell 6% following the announcement on the disappointing report. CEO Randall Stephenson did his best to accentuate the positives, "We're off to a good start in 2018, both in growing our customer base and in building the world's premier gigabit network. Our investment in customer growth and our integrated service offerings helped drive solid first-quarter subscriber gains across our wireless, video and broadband businesses. We also moved quickly to deploy FirstNet, and we expect the buildout to accelerate as we go forward. Our fiber deployments for business and residential customers now pass more than 16 million customer locations. And we're set to launch our next-generation DIRECTV NOW platform, which will offer cloud DVR and an additional video stream."

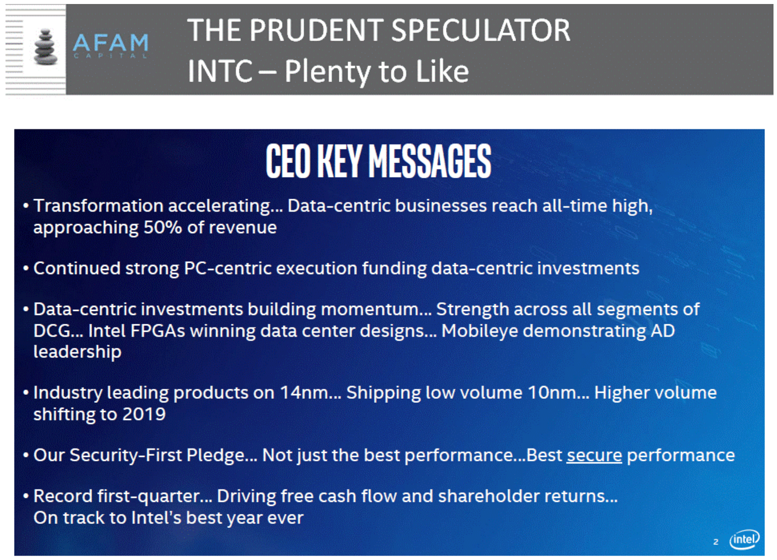
In addition to the earnings news, AT&T's effort to close its merger with Time Warner may be near its end. The company's battle with the Justice Department wrapped up in court on Thursday and closing arguments are scheduled for Monday, April 30. *The Wall Street Journal* estimates that the delay in closing has cost AT&T $1.4 billion so far. It's difficult to handicap the outcome, and the stakes are as high for consumers as they are for AT&T. The Justice Department's primary argument is that such a merger reduces competition. AT&T CEO Randall Stephenson noted briefly in the analyst call, "After the closing arguments, we'll wait for the court's ruling. Based on the court's determination, we stand ready to close. Funding is in place, even after we settle the special mandatory redemption bonds."

Looking forward, Mr. Stephenson said, "We're on track to surpass our commitment as part of the DIRECTV deal to build fiber to 12.5 million customer locations. We now reached more than 8 million locations with fiber and plan to hit 10 million by the end of this year. This is in addition to the 8 million business locations that we pass today within 1,000 feet with fiber. These 16 million locations and the more than 1 million route miles of fiber in our overall network are the backbone of our network and our move to 5G. With FirstNet 5G and fiber build, our network development has never moved at a faster pace. We're excited about the progress we're making and even more excited about where our network will be in a very short time."

With the uncertainty surrounding the Time Warner merger, we have excluded the benefits of corporate action until a chance of success becomes clearer. Our Target Price has been trimmed to $45 for the standalone AT&T. Whether the deal goes through or it is denied by regulators (the breakup fee from AT&T's perspective is a paltry (for a deal of this magnitude) $500 million), we remain fans of T, especially given the forward P/E ratio below 10 and the hefty dividend yield above 6%.

Semiconductor giant **Intel** (INTC – $52.73) posted earnings per share of $0.87, versus the $0.71 estimate, in fiscal Q1 2018. INTC had sales of $16.1 billion (vs. $15.1 billion est.). While shares initially soared 8% after hours, they gained a paltry 0.7% in Friday's trading session. Guidance for 2018 exceeded expectations, with Intel reporting that it expects revenue between $66.5 billion and $68.5 billion (consensus estimate was $65.1 billion) and adjusted EPS between $3.66 and $4.04 per share ($3.57 est.).

On the topic of the recent hardware flaws, CEO Brian Krzanich said, "Q1 was Intel's best first quarter ever and significantly exceeded the expectations we set in January. Our Client Computing Group continued to execute well, producing growth within a declining PC market. And our transformation to a data-centric company accelerated, with our data-centric businesses, including McAfee, up 25% over the first quarter of last year. The strength of Intel's business underscores my confidence in our strategy. What we're seeing is an unrelenting demand for compute performance, driven by the continuing growth of data and the need to process, analyze, store, and share that data. That dynamic benefits our traditional CPU business, and it reinforces the big bets we've made in memory, modems, FPGAs, and autonomous vehicles. We're competing to win in our largest collection of addressable market sever. And importantly, we're not just competing in these markets. We're leading and shaping them, as our first quarter results demonstrate."



Looking ahead, Mr. Krzanich commented, "Our strategy is working and our investments are paying off. We are now forecasting the midpoint of the revenue range at $67.5 billion, up $2.5 billion versus our expectations in January. We expect operating margin of approximately 31%, up 1 point from January, as spending as a percent of revenue drops to approximately 30%. Versus prior estimates, gross margin will be approximately flat, as broad-based strength in our business is offset by the higher costs associated with the 10-nanometer volume production shift to 2019. We now expect a full-year tax rate of 13%, 1 point down versus our prior estimates. Overall, stronger top line growth, improved operating margins, and a lower tax rate will boost EPS to $3.85, up $0.30 versus prior estimates."

While the overnight enthusiasm for Intel curiously didn't carry over into Friday's trading, we think that there's a lot to be enthusiastic about, despite Intel shares trading near all-time highs. We continue to be fans of Intel and like the company's diversified revenue stream, low levels of debt, forward P/E ratio of 13.8 and 2.3% dividend yield. Our Target Price for INTC has been boosted to $58.

Electronic manufacturing services firm **Benchmark Electronics** (BHE – $26.60) posted earnings per share of $0.41, versus the $0.36 estimate, in fiscal Q1 2018. BHE had revenue of $608.0 million, versus the $594.0 million estimate. Despite the terrific first quarter numbers and the recent initiation of a quarterly dividend, shares slipped 9.5% following the announcement after the company's guidance disappointed investors. Benchmark expects Q2 2018 adjusted EPS to be between $0.26 and $0.34 on revenue of $590 million to $630 million. Analyst estimate midpoints were $0.43 and $635 million, respectively. We note that only two analyst estimates are available at present in Bloomberg.

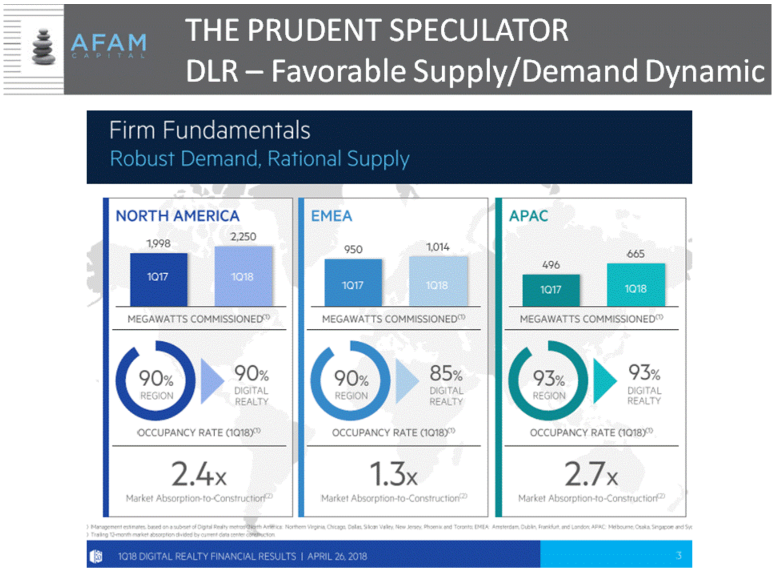
Benchmark CEO Paul Tufano stated, "We are making good progress on bookings. Revenue growth is critical for us to achieve our long-term financial model, and bookings are critical to revenue growth. In the second quarter, we generated $171 million of the bookings; and of those bookings, 63% were in our higher-value markets and 37% in traditional markets…We have a fundamental goal, and that fundamental goal is to help our customers to go to market faster and more economically. And we view that by bringing rich technical capabilities to them, so we are collaborating with them to solve complex problems, be able to operate extremely complex environments and complex product sets and more importantly to work with them as if we're an extension of their own internal organizations. To realize this goal, we are focused on a number of key actions that will leverage our exposure to those companies and provide greater value."

While guidance obviously was troublesome to short-sighted investors, the company has exceeded analyst expectations for seven straight quarters so the Q2 bar may be set low. Further, we like that Benchmark continues to expand its product offerings and that it has been pushing for growth outside of its original markets. Shares trade with a forward P/E ratio of 17 and we remain very enthused about the balance sheet, which boasts about $10 per share of net cash. Our Target Price has been cut to $36, but we note that BHE now sports a 2.3% dividend yield.

Data center REIT **Digital Realty Trust** (DLR – $107.80) had adjusted FFO per share of $1.61 per share in fiscal Q4 2017 (vs. $1.57 est.). "We have already closed on the sale of seven non-core assets year-to-date, generating proceeds of approximately $185 million and realizing gains of a little over $50 million. This consistent execution on our capital recycling program has prompted us to raise the high-end of our range for dispositions guidance by an additional $100 million, further bolstering our ability to self-fund our 2018 capital plan," said CEO William Stein. "In North America, data center construction crews remain active across the primary data center metros, particularly in Northern Virginia, which is by far the largest and most active metro in the world. It is also Digital Realty's largest concentration and we are blessed to have 345 megawatts of state-of-the-art capacity on our two existing campuses, in addition to 180 acres of strategic land holdings that will support the build-out of another 290 megawatts of future capacity."

We think that the buildout of cloud infrastructure around the world creates growing demand for DLR's offerings, as major technology companies like Microsoft work to deploy their cloud-based applications and services. With its 185 data centers in 33 markets, DLR has enhanced metro area exposure, additional hyper-scale product offerings, cost synergies and external growth potential via a strong development pipeline.

Mr. Stein added, "The global economic backdrop remains quite supportive and the long-term secular trends driving data center demand seem to be gaining momentum. The Cisco Global Cloud Index forecast that the number of hyperscale data centers will nearly double by 2021. Hyperscale data centers will account for more than half of all installed data center servers by 2021 and traffic within hyperscale data centers will quadruple by 2021. Digital Realty has the heritage and design expertise to efficiently meet this demand. Cisco also projects that 69% of the compute and 65% of the data will be housed in hyperscale facilities, which will become the foundation for the evolution of future ecosystems."



We like that the company has a broad customer base (more than 2,200 clients; IBM is the largest at 7.8% of aggregate annualized rent), expected 2018 FFO (a measure of real estate investment cash flow) of $6.52 per share and a recently increased 3.8% dividend yield. We remain fond of DLR, especially at the recently discounted quotation, and our Target Price has been nudged up to $132.

Household appliances firm **Whirlpool** (WHR – $157.75) posted earnings per share of $2.81, versus the $2.97 estimate, in fiscal Q1 2018. WHR had sales of $4.9 billion (vs. $5.0 billion est.). Despite the miss, shares moved up 3.8% following the announcement. The company also said that it expects 2018 full-year adjusted EPS to come in between $14.50 to $15.50, but revised its GAAP EPS estimate from $12.45-$13.45 to $12.30-$13.30. WHR expects to generate cash flow from operations of approximately $1.7 billion to $1.8 billion.

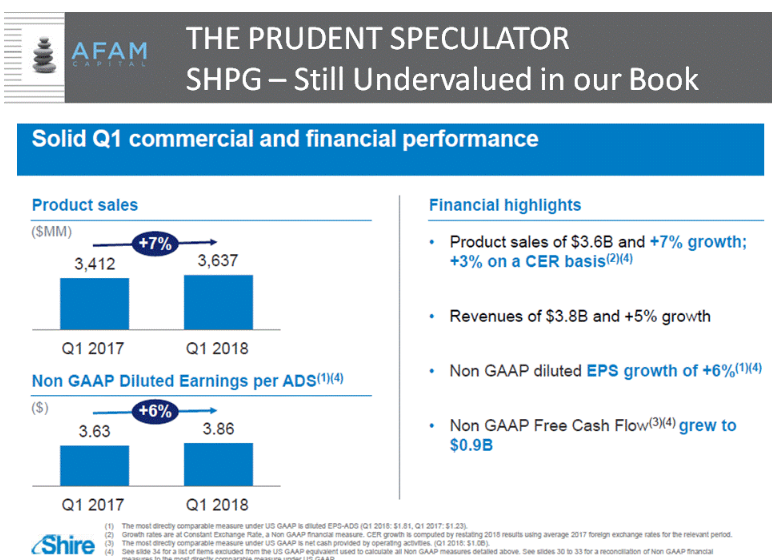
“Earlier today we announced an agreement to sell our Embraco compressor business unit for approximately $1.1 billion in cash. Embraco is a leading global manufacturer for refrigeration compressors, which is currently reported at heart of our Latin America segment. And in 2017, Embraco contributed approximately $1.3 billion in sales with margins approximating the segment average. The deal is expected to close in early-2019 subject to regulatory approval,” said CEO Marc Bitzer. “Based on the anticipated closing date, the deal is not expected to have a material impact on our 2018 financial results. However, we have secured financing in an amount similar to the anticipated net proceeds from this transaction, which we intend to use significantly includes share repurchases in the second quarter through a modified Dutch Auction tender offer targeting $1 billion. The impact of this tender offer is not reflected in the guidance we issued last night.”

The unknowns surrounding U.S. foreign policy has taken its toll on WHR, at least in part, as shares have slumped since January of last year. We think that the longer term is bright for WHR, as we still believe that the company is solidly positioned in the U.S. to capitalize on the appliance replacement cycle and continued housing recovery, while there is plenty of growth potential overseas. With analysts still looking for adjusted EPS to grow to more than $19.50 in 2020, we think the current P/E ratio (based on trailing-12-month earnings per share of $13.74) below 12 is cheap, especially given the recently boosted 2.9% dividend yield. Our Target Price for WHR is now $229, so we have no plans to participate in the Dutch Auction, whereby shares will be repurchased at a price not less than $150.00 and not more than $170.00.

Pharmaceuticals firm **Shire PLC** (SHPG – $161.66) posted earnings per share of $3.86, versus the $3.57 estimate, in fiscal Q1 2018. SHPG had sales of $3.8 billion (vs. $3.7 billion est.). CEO Flemming Ornskov, M.D., M.P.H., explained, “We saw solid execution in the first quarter with 7% product sales growth. We continue to advance our strong late stage pipeline including lanadelumab. And finally, we are making progress on our portfolio optimization and the recent agreement to sell our Oncology business.” SHPG said it expects to sell the Oncology business for $2.4 billion to Servier. The decision to offload the business was because management did not believe it was additive to Shire’s long-term strategy.

Looking ahead, management said it is keeping the 2018 guidance and will update investors again after the Oncology divestiture. The previously announced guidance for full-year 2018 adjusted EPS was between $14.90 and $15.50.

Dr. Ornskov concluded, “We delivered solid results with 7% product sales growth and good earnings, while overcoming the impact of generic Lialda in the U.S. We also continued to progress our pipeline including global filings of lanadelumab. These results reflect our continued progress in transforming Shire into the leading global biotech company focused on rare diseases. Approximately 70% of our revenue now comes from products to treat rare diseases and these products are mainly biologics. Our R&D pipeline is very strong with approximately 40 programs in clinical development. Approximately 70% of these programs are in rare diseases and several programs have been granted breakthrough therapy and orphan drug designations.”



We continue to believe Shire shares are significantly underpriced, despite a big jump in the last few weeks. Indeed, Takeda Pharmaceutical, the largest company of its kind in Japan, also thinks SHPG shares are undervalued and has offered 49 pounds per share for the London-listed Shire shares. The offer represents a 60% premium on the uninfluenced closing price of 30.70 pounds on March 27. Investors seem skeptical, however, that the deal will get done, as they closed far from the deal price at 38.94 pounds in London on Friday. In the meantime, its ADHD franchises will see some potentially important product launches occur in Asia this year, which could boost the valuation of the business line. Additionally, the continued evolvement of Shire's rare disease portfolio should create long-term opportunities. SHPG shares trade at less than 9 times NTM adjusted EPS expectations and our Target Price for our American Depository Receipts (1 ADR = 3 Shire shares) now stands at $256.

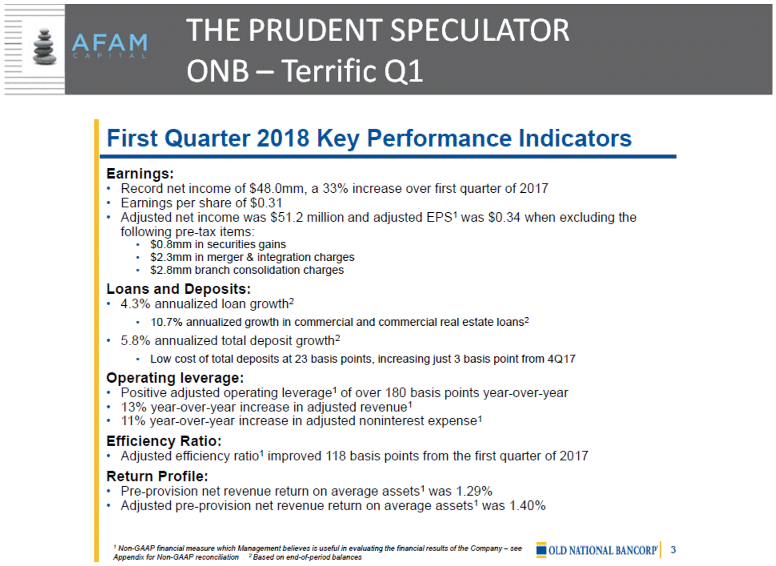
Shares of **Fifth Third Bancorp** (FITB – $33.83) rallied more than 7% last week, benefiting from higher interest rates and a solid Q1 earnings release. The Ohio-based bank posted adjusted earnings per share of $0.57, beating the average analyst estimate of $0.48 and the $0.37 of net income in the year-ago period. Not shown in the adjusted numbers, FITB's Q1 financials benefited from a revaluation of its Vantiv stake after it merged with Worldpay. Adjusted return on tangible equity and return on assets both improved during the quarter, climbing to 13.4% and 1.23%, respectively. Additionally, net-interest margin was 16 basis points higher than Q4 2017.

"Our first quarter results were strong and reflected the repositioning of our balance sheet over the last 24 months to improve the resiliency of our earnings. Our balance sheet continues to strengthen as evidenced by improving credit quality, strong capital ratios and the level of asset sensitivity which positions us well in the current rate environment," said CEO Greg D. Carmichael. "Expenses were well managed while we continued to invest in our strategic initiatives. We remain focused on driving improved shareholder returns and achieving our long term profitability targets."

We believe FITB is a good regional banking name to own in a diversified equity portfolio. Shares are trading at less than 14 times forward earnings estimates and carry a dividend yield of 1.9% (though we expect the company to boost its payout in the next few quarters). Our Target Price has been boosted to $41.

Regional bank **Old National Bancorp** (ONB – $17.50) saw its shares jump more than 4% last week after reporting Q1 financial results that saw EPS set a first quarter record and beat consensus analyst estimates by more than 16% ($0.34 versus $0.29). The company saw strength in commercial loans and cut non-interest expenses much more than investors were expecting.

"Our record start to 2018 was driven by continued strong commercial loan growth, disciplined expense management, controlled deposit costs and excellent credit quality," said CEO Bob Jones. "In keeping with our ongoing focus on improving the operating dynamics of the franchise, we also announced our decision to sell 10 branches and consolidate an additional 10 branches throughout our franchise."



We continue to like ONB and its regional focus on Indiana, Wisconsin, Kentucky and Michigan. While non-interest income compression was a drag in Q1, the company is working to improve this area as it efforts to diversify its revenue stream. We view Old National as a quality bank whose management balances a conservative culture with aspirations for growth. ONB remains well capitalized and its shares currently yield 3%, while the forward P/E ratio is a very reasonable 13.5. Our Target Price for ONB has been increased to $23.

Tire maker **Goodyear Tire & Rubber** (GT – $25.50) continued to experience a bumpy road for its stock in 2018, dropping more than 5% last week following its Q1 earnings release. Shares are now down more than 20% for the year, no doubt due to concerns around input costs, but we think the company turned in a solid first quarter. GT earned $0.50 per share in Q1, versus expectations of $0.46, on revenue of $3.83 billion that was slightly above consensus analyst estimates.

While GT saw a bit of volume weakness in the Americas during the quarter, the company also enjoyed improved performance in Europe, the Middle East, Africa and the Asian Pacific region. “We are pleased with our first quarter results given higher raw material costs and weaker demand than we expected in the quarter,” commented CEO Richard J. Kramer. “These results were highlighted by our performance in the 17-inch-and-larger segment in consumer replacement, which delivered more than double the industry growth in the U.S. and Europe.”

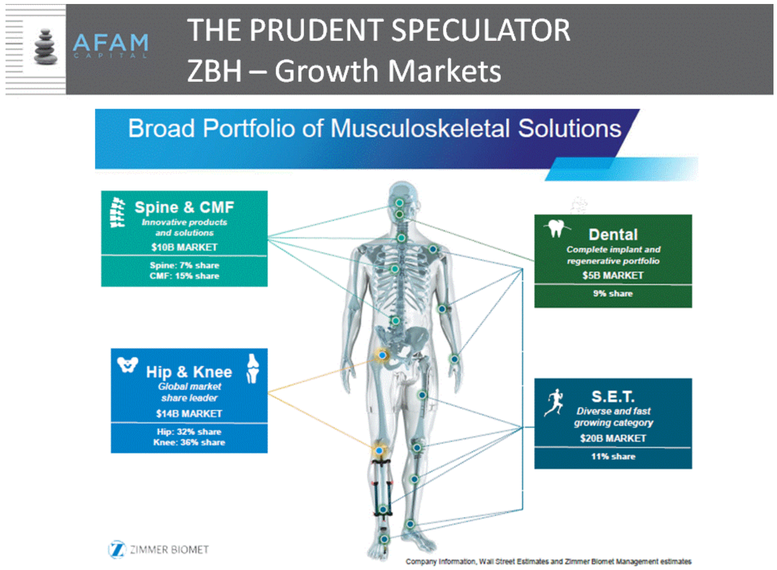
Goodyear also recently announced a joint venture with Bridgestone from which it expects to soon benefit. Under TireHub, a leading national tire distributor in the United States, the new venture will allow the company to work more closely with its customers and deliver an enhanced brand experience for consumers as buying habits continue to evolve. “TireHub will deliver best-in-class service for our retail and fleet customers and will be the cornerstone of our aligned distribution network, including our company-owned retail stores,” explained Mr. Kramer. “TireHub will strengthen our ability to promote our premium brands, our industry-leading ecommerce solution and our strategy of targeting the industry's most profitable, large rim size segments. This agreement increases our confidence in delivering on our long-term targets."

The company reaffirmed its 2018 segment operating income guidance of $1.8 to $1.9 billion, excluding the TireHub transition, and confirmed its 2020 segment operating income target of $2.0 to $2.4 billion. Given all of the above, we think the 2018 sell off of GT shares is very much overdone. Shares are trading at an unbelievably low forward P/E ratio (based on NTM adjusted earnings forecasts) of 6.7, and earnings are projected by analysts to grow to $3.59 this year, up from $2.93 in 2017. What's more, current EPS estimates for 2019 and 2020 stand at $4.23 and $5.04, respectively.

While overall vehicle demand is solid (which benefits GT's business that provides tires to car manufacturers), we continue to believe that the stock should be more sensitive to overall miles traveled than to auto sales, given that the company also benefits from its replacement tire business. We feel that continued strong employment, rising wages and solid consumer sentiment are conducive to folks traveling more and thereby creating more wear and tear on tires (spurring replacements). We think that Goodyear also should gain from higher long-term demand in emerging markets. With management remaining focused on reducing expenses, improving cash flow and strengthening the balance sheet, our Target Price for GT is now parked at $47.

Shares of **Zimmer Biomet Holdings** (ZBH – $116.92) jumped almost 6% last week after reporting Q1 results that topped analyst expectations on both the top and bottom lines. The medical device maker said it had adjusted EPS of $1.91, versus estimates of $1.89. Revenue for the quarter came in at $2.02 billion, compared to expectations of $1.98 billion. While the knee replacement market slowed during the quarter, ZBH's share loss definitely decelerated.

"As expected, in the first quarter our performance continued to reflect supply headwinds associated with key brands within our Knee, Hip and S.E.T. portfolios, as well as the ongoing quality remediation work at our Warsaw North Campus facility," said CEO Bryan Hanson. "As we look out over the course of the next 18 to 24 months, we will stay laser-focused on taking the necessary actions to narrow our gap to market and drive sustained shareholder value. These actions include successfully driving our ongoing quality remediation program, restoring supply, and scaling up the commercial launch of compelling new technologies, all of which remain on track."



ZBH now expects full-year 2018 diluted earnings per share in a range of $7.60 to $7.80 on an adjusted basis. Management believes the company will generate free cash flow between $1.1 billion and $1.3 billion this year. Additionally, the firm is projecting an adjusted tax rate between 18.5% and 19.5%. We continue to like that Zimmer is by far the king in hip and knee implants and we believe favorable demographics, which include aging “Baby Boomers” and increasing obesity rates, will drive solid demand for large-joint replacement. Additionally we like that Zimmer has a history of strong relationships with the orthopedic surgeons that use its products. The doctors in this specialty have frequently shown resistance to efforts by hospitals or health systems to limit their ability to choose their brand. We still believe that bottom-line growth will pick up over time and we like that ZBH consistently generates strong free cash flow. ZBH shares currently trades at 15 times NTM adjusted earnings projections and our Target Price is now $169.

Despite reporting record first quarter earnings and increasing its full year 2018 guidance, shares of **Royal Caribbean Cruises Ltd** (RCL – $111.82) dropped more than 6% last week (and the stock is down more than 17% since its late-January high). The cruise line operator announced that it earned $1.09 per share in Q1, versus consensus analyst estimates of $0.97. RCL generated revenue of $2.03 billion, slightly lagging forecasts calling for $2.04 billion.

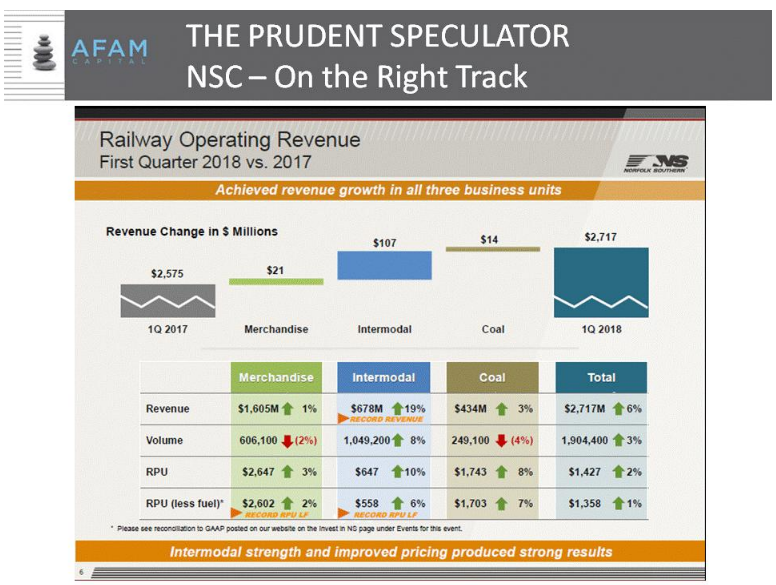
“This year is proving to be another strong year with all our brands firing on all cylinders,” proclaimed CEO Richard D. Fain. “The market continues to support our growth as our people keep focused on delivering our targets and goals. The strength of this market plus our new ships in 2018 (Symphony of the Seas, Azamara Pursuit, Mein Schiff 1 and Celebrity Edge), position us nicely for 2019 as well.”

The company raised its forecast of full year adjusted EPS to a range of $8.70 to $8.90 per share, $0.15 better than its previous guidance, as bookings for 2018 have been better than last year’s record high and ahead in both volume and rate. “We are delighted to report another record breaking quarter and to be driving towards record earnings for the year, above our initial guidance," said CFO Jason T. Liberty. "Revenues continue to excel and expenses, even including some new demand generating initiatives, continue to be carefully controlled."

While RCL and its competitors will have to continue to deal with elevated fuel prices, we think the headwind is reasonably under control as the company hedges 50% of its fuel costs. We believe the recent weakness is overdone and provides good opportunity to buy the stock as we remain fans of RCL and the overall prospects of the cruise industry, especially given favorable demographic and cruise-pricing trends. Shares trade for an attractive 12.5 times projected next-12-month earnings with a dividend yield of 2.2%. Our Target Price has steamed ahead to $149.

Shares of **Norfolk Southern** (NSC – $146.62) climbed more than 7% last week following a solid Q1 earnings release. The East Coast rail transportation company posted adjusted EPS of $1.91 (vs. $1.77 est.). NSC also said it had sales of $2.72 billion, versus the $2.68 billion estimate. Norfolk grew first-quarter operating income 10% as the firm expanded its top line 6% and held operating expenses to an overall moderate increase (largely due to operating with 1,000 fewer employees than a year ago), while benefitting from a lower overall tax rate.

"We are pleased with the continued improvement in our financial performance and the growth in our business," stated CEO James A. Squires. "We are focused on improving service for our customers to position us for future growth and efficiency that will benefit both our customers and shareholders. The outlook for 2018 is promising, and we are increasing our expected annual share repurchases to $1.5 billion, confident that we will deliver strong financial performance."



While shares are currently trading at 17 times NTM adjusted earnings projections for full-year 2018 of $8.62, forecasts for 2019 and 2020 adjusted EPS are currently pegged at $9.52 and $10.21, respectively. We have chugged along our Target Price to $173.

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