MARKET COMMENTARY MONDAY, FEBRUARY 18, 2019

February 18, 2019

EXECUTIVE SUMMARY

Week in Review – Handsome Rally; Value Beats Growth
2019 Returns – Indexes Now Up Double-Digit Percentages
Econ News – Mixed Data
Fed Funds Rate – No Additional Hikes Likely This Year
Trade Talk – Better News on the China Front; but Braced for Volatility
Sentiment – Still Not a Lot of Enthusiasm
Valuations – Inexpensive Metrics for our Managed Account Portfolios
Target Prices – New Listing Posted to theprudentspeculator.com
Stock Updates – AZSEY, MU, CSCO, DE, REG & NSC

Market Review

Illustrating yet again that the only problem with market timing is getting the timing right, the incredible rebound since the end of the 2018 Bear Market (remember that there was a 20.2% decline for the S&P 500 on an intraday basis from the high on 9.21.18 to the low on 12.26.18, even as the loss from 9.20.18 to 12.24.18 on a closing basis was "only" 19.8%),...

THE PRUDENT SPECULATOR
Volatility is Normal: Value/Divs Win Race

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	107.9%	916	26	3.5	3/9/2009	9/20/2018
17.5%	66.3%	571	38	2.4	12/24/2018	2/15/2019
15.0%	66.1%	555	44	2.1	12/24/2018	2/15/2019
12.5%	43.7%	330	71	1.3	12/24/2018	2/15/2019
10.0%	34.8%	247	105	0.9	12/24/2018	2/15/2019
7.5%	23.3%	147	154	0.6	12/24/2018	2/15/2019
5.0%	14.7%	72	298	0.3	12/24/2018	2/15/2019

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.6	1/6/2009	3/9/2009
-17.5%	-30.3%	222	37	2.4	9/20/2018	12/24/2018
-15.0%	-28.3%	192	43	2.1	9/20/2018	12/24/2018
-12.5%	-22.6%	140	70	1.3	9/20/2018	12/24/2018
-10.0%	-19.3%	102	104	0.9	9/20/2018	12/24/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/24/2018
-5.0%	-10.9%	37	297	0.4	12/3/2018	12/24/2018

From 02.20.28 through 2.15.19. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.3%	21.4%
Dividend Paying Stocks	10.4%	18.0%
Non-Dividend Paying Stocks	8.7%	29.5%
Long-Term Corporate Bonds	5.9%	7.5%
Long-Term Gov't Bonds	5.4%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 12.31.18. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…picked up steam last week, with the Russell 3000 and S&P 500 indexes gaining 2.70% and 2.56%, respectively. Happily, Value trumped Growth for a change, with the Russell 3000 Value index returning 2.86%, compared to a 2.54% advance for the Russell 3000 Growth index. And, whether Value or Growth, all of the U.S. equity benchmarks now are in the black by more than 10% on the year,…

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Market of Stocks – Varying Index Returns

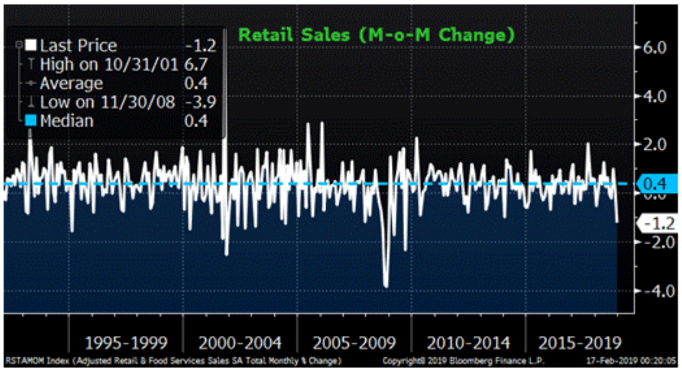
Returns Race

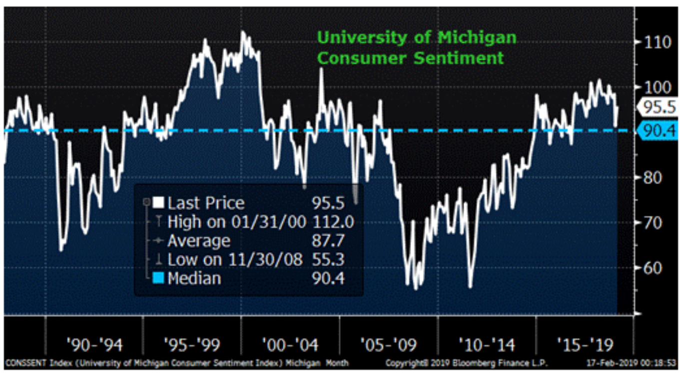
2019 Return %	2018 Return %	2017 Return %	2016 Return %	Bloomberg Symbol	Index
Stock Indexes					
11.37	-3.48	28.11	16.50	INDU Index	Dow Jones Industrial Average
12.75	-2.81	29.73	8.97	CCMP Index	NASDAQ Composite Index
11.56	-4.79	21.68	12.04	RIY Index	Russell 1000 Index
16.50	-11.03	14.63	21.28	RTY Index	Russell 2000 Index
11.91	-5.25	21.12	12.72	RAY Index	Russell 3000 Index
11.02	-4.39	21.82	11.95	SPX Index	S&P 500 Index
12.31	-1.52	30.21	7.07	RLG Index	Russell 1000 Growth Index
10.82	-8.28	13.64	17.33	RLV Index	Russell 1000 Value Index
17.65	-9.34	22.14	11.28	RUO Index	Russell 2000 Growth Index
15.31	-12.85	7.82	31.72	RUJ Index	Russell 2000 Value Index
12.70	-2.12	29.58	7.38	RAG Index	Russell 3000 Growth Index
11.13	-8.59	13.17	18.38	RAV Index	Russell 3000 Value Index
10.71	-0.01	27.43	6.89	SGX Index	S&P 500 Growth Index
11.36	-8.97	15.35	17.39	SVX Index	S&P 500 Value Index
13.57	-4.22	26.76	4.22	SPXPG Index	S&P 500 Pure Growth
13.82	-12.02	17.73	19.62	SPXPV Index	S&P 500 Pure Value
8.22	-13.94	27.22	4.54	ACWX Index	ISHARES MSCI ACWI EX US
		Source: Bloomberg. As of 2.15.19			

While there has been performance dispersion over the last three+ years, with better returns for Growth stocks, thanks in large part to high-flying Amazon, we suspect that few are complaining about the double-digit returns for nearly all of the benchmarks this year.

...an impressive feat, given that domestic economic data has not exactly been robust,...

Mixed Read on the Consumer



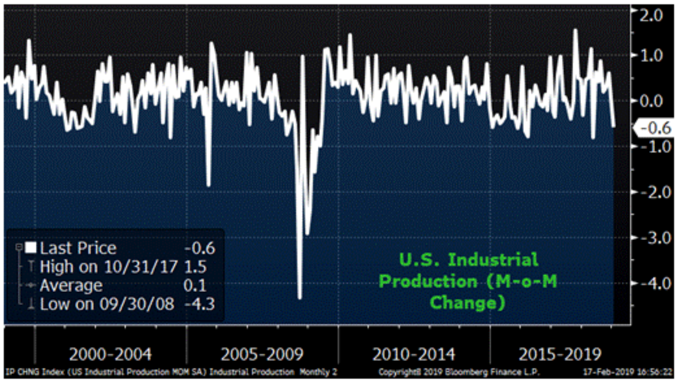


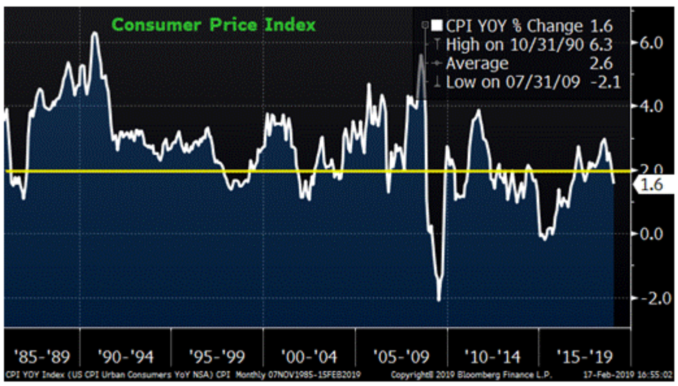
Though many individual retailers had reported solid Holiday sales, the official tally of retail sales for December skidded 1.2%, the biggest decline since 2009 and well below expectations of a 0.1% increase. The partial government shutdown might have impacted the data, and Consumer Sentiment, per the Univ. of Michigan, rebounded nicely in February, beating forecasts with a rise to a well-above average reading of 95.5.

…with some of the statistics coming in well below expectations,…

THE PRUDENT SPECULATOR

Fed Seems Likely to Remain on Hold





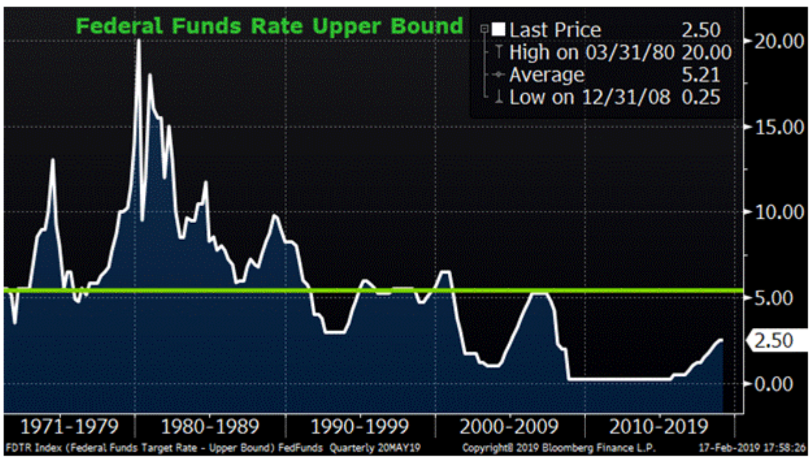
Though the "Polar Vortex" and the government shutdown likely deserve a lot of the blame, output at the nation's factories, mines and utilities fell 0.6% in January, while December was revised lower by 0.2%. The weaker Industrial Production numbers add to data suggesting that the U.S. economy is hardly running too "hot," while the latest read on prices at the consumer level shows that inflation remains well contained.

...which actually alleviates concerns that the Federal Reserve will continue to raise interest rates this year,...

Dovish or Hawkish: Fed is Still Friendly

99) Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.40
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 02/17/2019 — Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	Fwd Rate
03/20/2019	0.0%	1.0%	0.0%	1.0%	99.0%	0.0%	0.0%	2.40
05/01/2019	0.0%	3.0%	0.0%	3.0%	97.0%	0.0%	0.0%	2.39
06/19/2019	3.7%	2.9%	0.0%	2.9%	93.4%	3.7%	0.0%	2.40
07/31/2019	3.9%	2.9%	0.0%	2.9%	93.2%	3.9%	0.0%	2.40
09/18/2019	4.4%	2.9%	0.0%	2.8%	92.7%	4.4%	0.0%	2.40
10/30/2019	4.9%	2.9%	0.0%	2.8%	92.3%	4.8%	0.0%	2.40
12/11/2019	4.4%	11.5%	0.3%	11.2%	84.1%	4.4%	0.0%	2.38
01/29/2020	4.0%	18.8%	1.2%	17.5%	77.2%	4.0%	0.0%	2.36



It is fascinating that investors, at least as evidenced by the Fed Funds Futures market, now believe, despite the terrific equity market rebound, that the Federal Reserve has a better chance of lowering interest rates over the next year after fretting that Jerome Powell & Co. were not "dovish" enough back in December 2018.

...even as it would seem that fears of an imminent recession have also subsided.

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THE PRUDENT SPECULATOR
We Invest in Stocks and Not in Economies

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 14 prior instances of actual negative economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	192715%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	358163%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	258127%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	209656%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	86604%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	39749%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	29925%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	12860%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	10859%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	6794%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.4%	408.6%	5468%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.0%	424.9%	1315%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	241%
9.0%	-5.7%	December 2007	-40.4%	-36.2%	-13.0%	-6.6%	5.3%	5.7%	117.4%	119.5%	134%
7.4%	**10.6%**	**Averages**	**-0.1%**	**2.3%**	**27.9%**	**44.4%**	**53.0%**	**85.8%**	**216.4%**	**338.2%**	**86615%**

As of 2.15.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Obviously, anything can happen as we move forward, and last week's rally was attributed to positive developments on the trade front, with U.S. Trade Representative Robert Lighthizer stating on Friday, "We feel we have made headway on very, very important and difficult issues," and Chinese President Xi Jinping suggesting that "important progress" was made.

Certainly, there is no guarantee that a Trade Deal will be reached, so we, as always, remain braced for market volatility,..

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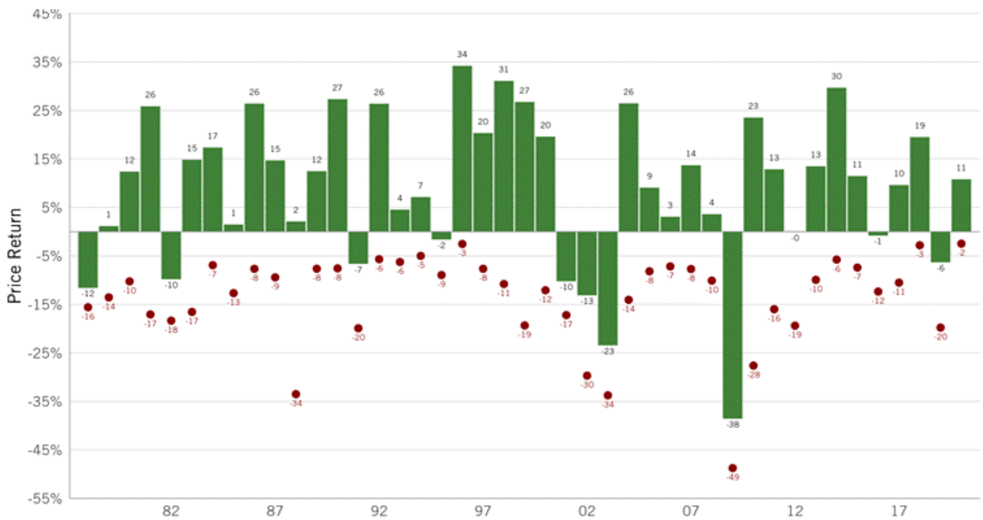
THE PRUDENT SPECULATOR
A Big Selloff Happens Almost Every Year

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 25 of the 41 years, including a 19.8% one (on a closing basis) last year.

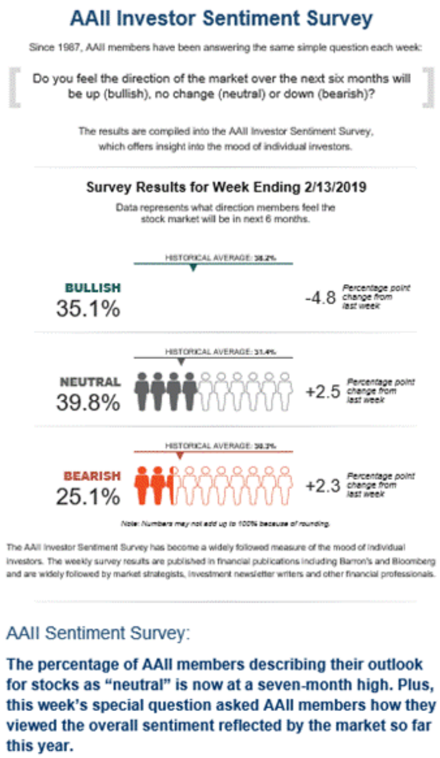


From 12.31.76 through 02.16.19. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…but we are happy that investor sentiment is far from euphoric,…

THE PRUDENT SPECULATOR

Massive Rally Yet Investors Not Optimistic



Interestingly, despite a better than 18% advance in the S&P 500 since the Christmas Eve closing low, the number of Bulls in the latest AAII Sentiment Survey was below average, while U.S. stock fund and ETF investors are again in redemption mode.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	2/6/2019	1/30/2019	1/23/2019	1/16/2019	1/9/2019
Total Equity	1,269	-13,645	1,485	-2,783	11,326
Domestic	-2,863	-14,039	-571	-4,931	6,630
World	4,132	394	2,056	2,148	4,696
Hybrid	710	-530	355	16	11
Total Bond	16,094	7,771	6,798	9,327	6,300
Taxable	13,133	5,824	5,367	7,633	4,350
Municipal	2,961	1,947	1,431	1,694	1,950
Commodity	-621	767	584	-213	711
Total	17,452	-5,639	9,222	6,347	18,348

Source: Investment Company Institute

…while we continue to think that valuations on our managed account portfolios are very reasonable and that dividend yields are still quite generous.

THE PRUDENT SPECULATOR
Managed Account Ports & Benchmarks

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	13.3	12.0	1.1	2.1	3.0
Select Value	13.6	12.3	1.1	2.2	2.6
Select Dividend	13.6	12.3	1.0	2.2	3.3
Select Focused Dividend	12.5	11.6	0.9	2.3	3.4
Select Focused Value	13.5	12.3	1.2	2.5	2.9
Select SMID Dividend	13.7	12.2	0.6	1.7	2.9
Russell 3000	19.9	17.2	1.9	3.1	2.0
Russell 3000 Growth	25.2	21.0	2.8	6.8	1.4
Russell 3000 Value	16.4	14.5	1.5	2.0	2.6
Russell 1000	18.9	16.8	2.0	3.2	2.0
Russell 1000 Growth	23.0	20.3	2.9	7.1	1.4
Russell 1000 Value	16.1	14.4	1.6	2.1	2.6
S&P 500 Index	18.4	16.6	2.1	3.3	2.0
S&P 500 Growth Index	24.0	20.6	3.6	5.4	1.5
S&P 500 Value Index	14.7	13.7	1.4	2.3	2.5
S&P 500 Pure Value Index	11.3	10.2	0.6	1.2	2.8

As of 02.17.19. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Stock Updates

Keeping in mind that all stocks are rated as "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, Jason Clark and Chris Quigley offers updates on half a dozen of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices. And speaking of Target Prices, a new listing of all of our formerly recommended but not yet closed out stocks has been posted to theprudentspeculator.com…

Shares of insurer and financial services firm **Allianz SE** (AZSEY – $21.38) rose over 3% last week on the back of a solid Q4 and full-year 2018 financial results. The quarter saw internal revenue growth of 4.4% and net income attributable to shareholders up 18.9% to 1.7 billion euros. Higher operating profit from the Property-Casualty segment was mostly offset by a decline in the Life/Health and Asset Management business segments. Management also announced that a new 1.5 billion euro buyback program has been approved.

"I am very proud of the global Allianz family for delivering such a great set of results. We reached the highest net income of the past ten years despite strong market volatility, especially in the fourth quarter," said CEO Oliver Bäte. "Our customers continue to rely on us, and it's with them in mind that we are focusing on simplicity in the next iteration of our strategy."

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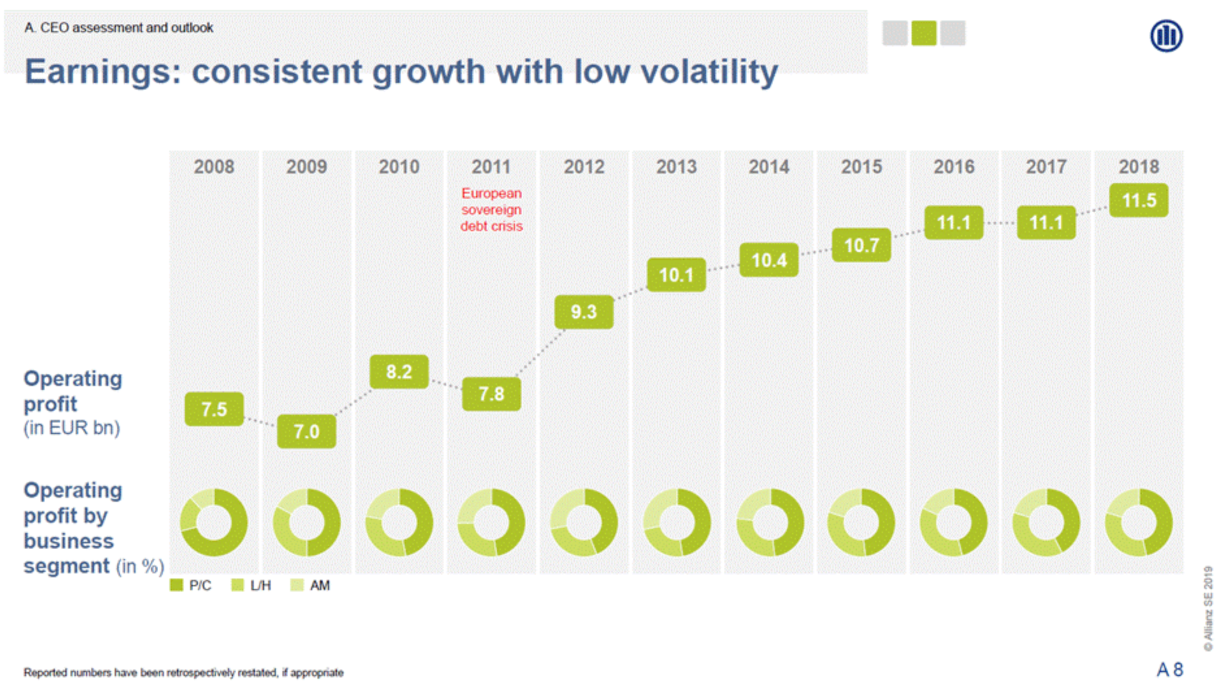
AZSEY – Fairly Steady as She Goes



CFO Giulio Terzariol added, "Allianz achieved excellent results in 2018 with operating profit of 11.5 billion euros, reaching the upper end of the Group's announced target range of 10.6 to 11.6 billion euros. Our healthy and well-diversified business makes us confident that we will continue to deliver a strong financial performance again this year. The Group looks to generate an operating profit of 11.5 billion euros in 2019, plus or minus 500 million euros, barring unforeseen events."

We continue to believe that a strong balance sheet and cash generation ability give AZSEY the opportunity to make acquisitions, buy back shares and hike the dividend from the current $0.70 net per share. In addition, the company has a diversified global income stream and diligent management team, while we think that the high-quality shares are very inexpensive, trading for just under 10 times estimated earnings and yielding 3.3%. Our Target Price has been inched up to $30.

Shares of memory-maker **Micron Technology** (MU – $41.99) rallied nearly 9% after CEO Sanjay Mehrotra made positive remarks at the Goldman Sachs Technology and Internet Conference on February 12. While analysts have been relatively negative on MU recently (and it's reflected in the share price trajectory), Mr. Mehrotra's message was not at all ominous, "In December, we discussed that due to confluence of factors we are seeing a weak demand trend in the first half of calendar year 2019. And one of the big factors here was higher levels of inventory that were delta during the course of calendar 2018 by some of our customers, given the high prices that DRAM had been seeing in the industry as well as the shortages that had been seen. The customers had, during 2018, shifted to high levels of inventory. And as the demand catches up with supply on the DRAM side, they are now operating with – going toward lower levels of inventory. So we had mentioned in our December call that we expect these inventory adjustments to work through a couple of quarters during calendar year 2019."

Mr. Mehrotra continued, "The second factor, of course, impacting our demand environment in 2019 relate to the CPU shortages, which we also expect to be largely mitigated as we get into the second half of calendar year 2019. And in the inventory adjustments, customer is on the cloud as well as on the enterprise and the graphics side of the market, and we also had talked about that overall unit demand weakness in smartphone also contributing to some of the demand weakness in the first half of calendar year 2019. We also have said that second half of calendar year 2019 is we expect the demand environments to improve."

"I would like to highlight that in terms of overall end-demand from our customers for our products, we expect year-over-year demand growth to be 16% or so even though the end market demand continues to be healthy, which will be supplied by some of the inventory adjustments to be made by the customers during calendar year 2019, as well as the 16% kind of demand growth that I'm talking about from industry suppliers to our customers. Our expectation, based on what we've heard, is that bit output growth for the industry is going to come down quite a bit and that they will carry this inventory in a similar fashion. We do think the end market demand dynamics are going to be strong through the year and this will get consumed by the end of the year. I think we'll be in very good shape. We'll have a little bit of an elevated inventory level for a couple of quarters that we'll talk about, but by the end of the year I think we'll be where we want to be from a model perspective," Mr. Mehrotra concluded.

Analysts expect MU to earn $7.43 in fiscal 2019 (down from $10.14 on Dec. 3) and $6.42 in fiscal 2020 (down from $9.23 on Dec. 3). While earnings estimates have tumbled since early December, the stock price has rebounded, amid boosted confidence that MU will see a solid back half of the year. We think MU's valuation remains compelling and believe that solid state storage (NAND and NVMe) is the way of the future for its size, performance and energy saving properties. We appreciate that memory and data storage have been historically volatile businesses and it has been a rough ride for our relatively brief holding period, but we believe the sell-off (the stock traded as high as $64 back in May) offers an attractive entry point for portfolios that are underexposed to cloud growth. Our Target Price for MU is now $71.

Networking communications equipment firm **Cisco Systems** (CSCO – $49.43) earned $0.73 per share in fiscal Q1 2019 (vs. $0.72 est.). CSCO had total revenue of $12.45 billion, versus the $12.42 billion estimate. Shares traded more than 4% higher over the ensuing two days.

CEO Chuck Robbins commented, "We delivered revenue growth across all geographies and businesses, strong margins, double-digit non-GAAP earnings per share growth and continued solid cash generation. With global internet traffic expected to increase threefold over the next five years, our customers are facing an exponential demand for capacity. To address their need for speed and performance, we continue to innovate to drive the industry's transition to next-generation high-speed networks of 400-gig and beyond. Our acquisition of Luxtera will further augment our existing capability around silicon and optics, enabling our customers to build the fastest and most efficient networks."

Mr. Robbins concluded, "In summary, we are very pleased with our strong quarter and first half performance. Our teams are executing incredibly well, aggressively transitioning to a software model, and accelerating our pace of innovation, and I'm proud of the work they are doing. Our multi-domain intent-based architecture is helping to simplify, automate, and secure the complex IT environments our customers are facing, and I believe we are well positioned to play an even more strategic role with them as they embrace multi-cloud, edge computing, and digital transformation. The innovation our teams have been driving has now given us the strongest portfolio that we've had in a very long time, and I couldn't be more confident about our future."

Q2 FY2019 Highlights

- **Delivered revenue growth across all geographies and businesses, strong margins, double-digit non-GAAP earnings per share growth and continued solid cash generation**.
- Continued growth in infrastructure platforms.
  - Strong customer uptake of Catalyst 9000 family of switches and SD-WAN offerings.
- **Security generated strong double-digit revenue growth**… seeing strong traction with Duo while strengthening our cloud-based subscription portfolio.
- Within Applications, collaboration had another quarter of exceptional growth as customers are adopting our comprehensive market-leading portfolio.
- **Our innovation has given us the strongest portfolio in a long time**.
- **Increased our quarterly dividend by $0.02 per share and increased the share buyback authorization by $15B,** showing our confidence in future cash flows and commitment to shareholders.

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CFO Kelly Kramer continued the upbeat assessment and offered guidance for fiscal Q3 2019, "We also announced a $0.02 increase to the quarterly dividend to $0.35 per share, up 6% year over year. This represents a yield of approximately 3% based on today's closing price. We also announced a $15 billion increase to the authorization of the share repurchase program. This raises the remaining share repurchase authorization to approximately $24 billion. This dividend increase and additional share repurchase authorization reinforces our commitment to returning capital to our shareholders and our confidence in the strength and stability of our ongoing cash flows. For Q3, we expect revenue growth in the range of 4% to 6% year over year. We anticipate the non-GAAP gross margin rate to be in the range of 64% to 65%. The non-GAAP operating margin rate is expected to be in the range of 31% to 32%, and the non-GAAP tax provision rate is expected to be 19%. Non-GAAP earnings per share is expected to range from $0.76 to $0.78."

Cisco shares have rebounded strongly since hitting $40.28 on Christmas Eve 2018, and we think the operational momentum can carry the company further. CSCO has a massive share buyback available, which would allow the company to repurchase more than 10% of outstanding shares at current prices. We think the company's challenging transformation has put it on a path to long-term success, and shareholders are beginning to see the benefits of those efforts. We continue to like the strong balance sheet with about $3.25 per share in net cash and believe that the stock still trades at a sizable discount with a forward 12-month P/E ratio of 15 and a 2.9% dividend yield. Our Target Price has been hiked to $56.

Shares of **Deere & Co.** (DE – $158.99) fell more than 2% on Friday after the agricultural, construction and forestry machinery maker reported fiscal Q1 2019 financial results that fell short of analyst expectations. Deere posted revenue of $6.94 billion, versus expectations of $6.95 billion, while adjusted EPS of $1.54 missed investor forecasts by 12%. The Ag & Turf section saw revenue jump year-over-year by 10%, but profits struggled as margins dropped due to increased costs.

"Although Deere has continued to make solid progress on a number of fronts and reported higher earnings for the quarter, our results were hurt by higher costs for raw materials and logistics as well by customer concerns over tariffs and trade policies," explained CEO Samuel R. Allen. "These latter issues have weighed on market sentiment and caused farmers to become more cautious about making major purchases. At the same time, sales of John Deere construction and forestry machinery have continued at a strong pace. We believe cost pressures should abate as the year progresses and are hopeful we will soon have more clarity around trade issues. As a result, we remain cautiously optimistic about our prospects for the year ahead."

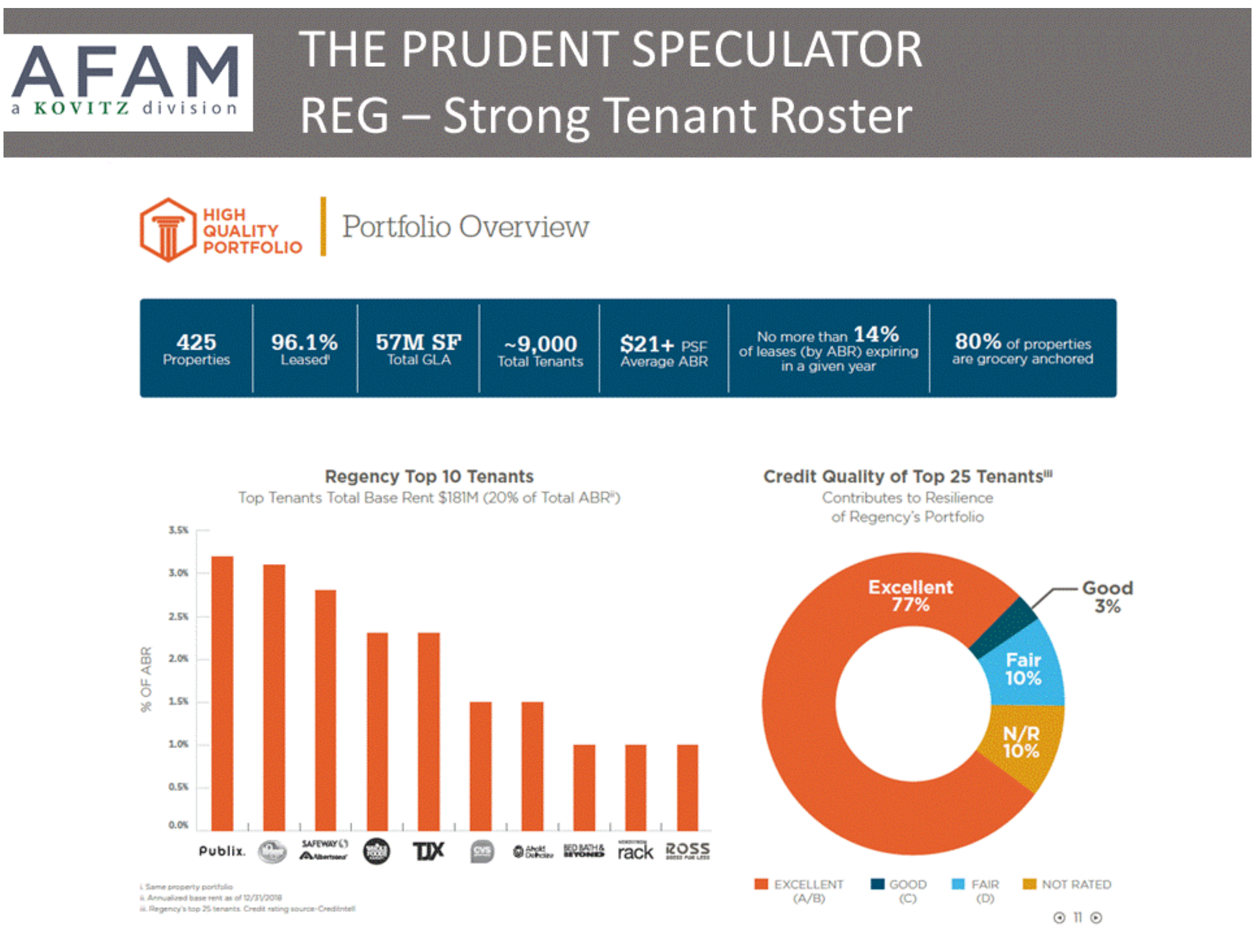
Looking ahead, Mr. Allen added, "Despite unsettled conditions in some of our key markets, Deere expects to achieve strong financial results in 2019. This is a testament to the success of our actions to create a more flexible cost structure, expand our global customer base, and develop leadership in the latest precision technologies. Customers are responding with great enthusiasm to the advanced features and technology in our new products. We are confident Deere is well-positioned to achieve its financial goals and firmly believe the company remains on track for delivering solid operating performance and significant value to customers and investors in the future."

While we were disappointed in portions of the Q1 release, we have continued to be pleased with Deere's progress and we remain optimistic about the long-term potential of global agriculture in general as the decline of worldwide arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. That said, while we think that Deere will benefit from continued global demand, we will be paying very close attention to input costs, trade conflict impact and regional demand changes. Our Target Price for DE now stands at $187.

National owner, operator and developer of neighborhood and community retail centers **Regency Centers** (REG – $66.32) reported its Q4 2018 results last week, which helped continue a share price rebound that has the low-beta stock up 13% so far in 2019. Regency reported funds from operations (FFO) of $0.98 per share for Q4, versus the consensus analyst estimate of $0.95. Management also announced its initial FFO guidance for full-year 2019, projecting between $3.83 and $3.89. Additionally, the Board of Directors increased the REITs quarterly dividend from $0.555 per share to $0.585.

CEO Martin E. "Hap" Stein, Jr. stated, "Regency's exceptional team again executed on our proven strategy, achieving over 3% same property NOI growth for the seventh consecutive year, starting nearly $200 million in compelling developments and redevelopments, further fortifying our strong balance sheet and highlighting our commitment to corporate responsibility. Regency is well positioned to sustain growth in earnings, cash flow, and dividends and in turn, total shareholder returns in the evolving world of retail real estate."

We were pleased to see that management bought back shares in Q4 when the equity markets corrected sharply, and we are happy that as of Dec. 31 the same property portfolio was 96.1% leased, a 20 basis point increase sequentially, and spaces 10,000 square feet or greater were 98.5% leased, a 50 basis point increase sequentially.



We continue to like that the company's portfolio is primarily anchored by productive grocers and that most of its properties are located in affluent and more-heavily populated metro areas. The yield on REG shares is 3.5%, and our Target Price is now $92.

Although we updated readers on east coast railroad transportation company **Norfolk Southern** (NSC – $182.87) a few weeks ago following Q4 earnings, we thought it important to give another mention after the company's Investor Day, noting that the stock gained almost 6.7% last week.

The company said its strategic plan moving forward would be focused on increased productivity, efficiency and revenue growth, and would target an operating ratio of 60% by 2021. Additionally, management said it believes the company can grow revenue at a compound annual rate of 5% through 2021. NSC is also targeting capital expenditures between 16% and 18% of revenues through 2021 to promote safety, efficiency and growth. Finally, the company will look to maintain a dividend payout ratio of 33% and continue share repurchases using free cash flow and borrowing capacity.

CEO James A. Squires said, "Our strategic plan capitalizes on the strength of our exceptional franchise to lower costs, operate more efficiently, and deliver stronger margins. As we implement precision scheduled railroading, our initiatives are focused on five key principles: serving our customers, managing our assets, controlling our costs, working safely, and developing our people. The success of our customers, our employees, and our company will ensure the success of our shareholders."

Our Target Price for NSC has steamed ahead to $197, and while we are fine riding the momentum wave for a bit as the industry focuses on improving cost and operational efficiency, we are keeping a watchful eye on the stock as it currently trades at 17.4 times NTM adjusted EPS expectations.