MARKET COMMENTARY MONDAY, FEBRUARY 25, 2019

February 25, 2019

EXECUTIVE SUMMARY

Bear Market 2018 – Buckingham Back on His Soapbox
Week in Review – Rebound Continues; S&P Up More than 19% Since Boxing Day Bear Market Bottom
Volatility – Rallies Win More than the Selloffs Lose
Memory Lane – 32 Years at *TPS*; Ode to Al Frank
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Market Review

Sorry for remaining on the soapbox, but with the mainstream financial press this past weekend continuing to perpetuate the myth that we are in a nearly 10-year-old Bull Market (because the S&P 500 fell only 19.8% from 9.20.18 to 12.24.18 on a closing basis), your Editor must again offer the reminder that stocks actually trade when the market is open.

2018 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
9/20/2018	12/24/2018	-24.58%	Russell 3000 Average Stock	8/28/2018	12/24/2018	-24.64%	NASDAQ Composite Average Stock
10/3/2018	12/26/2018	-19.44%	Dow Jones Industrial Average	8/29/2018	12/24/2018	-23.28%	S&P 500 Pure Growth Index
8/30/2018	12/24/2018	-23.89%	NASDAQ Composite Index	1/24/2018	12/26/2018	-25.36%	S&P 500 Pure Value Index
9/21/2018	12/26/2018	-20.46%	Russell 1000 Index	2/1/2018	12/24/2018	-22.90%	S&P 500 Communication Services
8/31/2018	12/24/2018	-27.28%	Russell 2000 Index	10/1/2018	12/24/2018	-23.88%	S&P 500 Consumer Discretionary
9/21/2018	12/26/2018	-20.91%	Russell 3000 Index	1/29/2018	12/26/2018	-18.12%	S&P 500 Consumer Staples Secto
9/21/2018	12/26/2018	-20.21%	S&P 500 Index	5/22/2018	12/26/2018	-32.25%	S&P 500 Energy Sector GICS Lev
10/1/2018	12/24/2018	-22.64%	Russell 1000 Growth Index	1/29/2018	12/26/2018	-27.13%	S&P 500 Financials Sector GICS
1/26/2018	12/26/2018	-20.64%	Russell 1000 Value Index	10/1/2018	12/24/2018	-16.90%	S&P 500 Health Care Sector GIC
8/31/2018	12/24/2018	-29.11%	Russell 2000 Growth Index	1/29/2018	12/26/2018	-25.86%	S&P 500 Industrials Sector GIC
8/27/2018	12/26/2018	-25.99%	Russell 2000 Value Index	10/3/2018	12/24/2018	-24.50%	S&P 500 Information Technology
10/1/2018	12/24/2018	-23.02%	Russell 3000 Growth Index	1/26/2018	12/26/2018	-26.58%	S&P 500 Materials Sector GICS
1/26/2018	12/26/2018	-20.69%	Russell 3000 Value Index	12/6/2018	12/24/2018	-12.83%	S&P 500 Real Estate Sector GIC
10/1/2018	12/24/2018	-21.34%	S&P 500 Growth Index	12/13/2018	12/24/2018	-9.20%	S&P 500 Utilities Sector GICS
1/26/2018	12/26/2018	-21.63%	S&P 500 Value Index				

As such, we will assert that the two-month-old rebound from the Boxing Day Bear Market nadir (the S&P 500 was off 20.2% between the intra-day high on 9.21.18 and the intra-day low on 12.26.18; intra-day meaning when the market isn't closed!) managed to gain more ground last week.

Despite less-than-stellar economic numbers on housing (existing home sales for January fell a worse-than-projected 8.8%) and manufacturing (the Philly Fed Business Outlook for February came in at -4.1, well below expectations), President's Week ended on a positive note, thanks to continuing apparent progress on the trade front with China. The S&P 500 and Russell 3000 gained 0.65% and 0.71%, respectively, over the four days of trading, while the race between Value and Growth was close, with the Russell 3000 Value index climbing 0.73%, compared to a 0.69% return for the Russell 3000 Growth index.

No doubt, we are pleased to see the 11.7% year-to-date total return on the S&P 500 (the benchmark is now up more than 19% since the Boxing Day Bear Market low), though we can't say that the best start to a year since 1987 has been a huge surprise.

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THE PRUDENT SPECULATOR
Good (on average) Has Followed Ugly

The fourth quarter of 2018 was awful, with the widely followed S&P 500 showing a price decline of -14.0%. Quarterly losses of that magnitude of greater have occurred 20 time previously over the past 90 years, but the ensuing quarter, no doubt helped by massive rebounds during the Great Depression, has enjoyed an average gain of 10.7%.

S&P 500 Bad Quarters

Quarter Ending	Quarterly Gain/Loss	Next Quarter Gain/Loss
6/30/1932	-39.4%	82.4%
9/30/1931	-34.5%	-16.4%
12/31/1929	-28.9%	17.2%
9/30/1974	-26.1%	7.9%
12/31/1937	-23.3%	-19.4%
12/31/1987	-23.2%	4.8%
12/31/2008	-22.6%	-11.7%
6/29/1962	-21.3%	2.8%
3/31/1938	-19.4%	36.0%
6/30/1970	-18.9%	15.8%
9/30/1946	-18.8%	2.3%
6/30/1930	-18.6%	-9.1%
6/28/1940	-18.1%	6.8%
9/30/2002	-17.6%	7.9%
12/31/1930	-17.5%	8.8%
3/31/1939	-16.4%	-1.1%
12/31/1931	-16.4%	-10.0%
3/31/1933	-15.5%	86.5%
9/28/2001	-15.0%	10.3%
12/31/1941	-14.8%	-7.8%
Averages:	**-21.3%**	**10.7%**

Since 1927. Price Return. Source: AFAM using data from Bloomberg

After all, volatility cuts both ways, with 10% rallies taking place more than once a year on average and 20% Bull Markets occurring every 3.5 years. Of course, the wonderful thing about rising markets is that they historically have gained far more than has been lost in the inevitable setbacks.

For example, our analytics show that the S&P 500 on a price-return basis (i.e. not counting dividends) has gained 34.8% on average once it has passed the 10% up threshold and before a subsequent 10% drop has occurred. Contrast that with a 19.3% average decline when the 10% down threshold has been breached and before a 10% rebound has occurred. The numbers are even better when looking at 20% as the inflection point as the average gain during a Bull Market has been 108%, compared to a 34% average loss during a Bear Market.

Hopefully needless to say, stocks historically have been a very rewarding asset class for those who remember that time in the market trumps market timing. Happily, this was a lesson learned very early in my time with Al Frank, the founder of *The Prudent Speculator*, and it is something that I believe now more than ever as I celebrate my 32nd year this month with the newsletter.

Travelling down memory lane, and providing some color on my good fortune to have an occupation that is my avocation, I thought some would find interesting the tribute I penned to Al,...

THE PRUDENT SPECULATOR
Ode to Al Frank Page 1: May 2002

Serendipity brought Al Frank and I together back in February of 1987. As a senior in college at the University of Southern California with an interest in the stock market, I had taken a part-time job as a stockbroker's assistant at the infamous Drexel Burnham Lambert. Alas, I soon discovered that I was hired to be a telephone solicitor and that most of my cold-call recipients were not much interested in anything Drexel had to sell.

Happily, I developed a good relationship with my employer, having put together a couple of colorful pie-charts for his clients with Lotus 123. Back in 1987, the personal computer was in its infancy and a graphical depiction of asset allocation was pretty impressive. To make a long story short, I was able to parlay a connection made during my two-week cold-calling stint into a job interview with the investment guru Al Frank.

Incredibly, it was Al himself who phoned this then wet-behind-the-ears21-year-old to express his interest in my talents. I jumped at the chance as I had heard great things about The Prudent Speculator. While I would have been willing to work for nothing (I hope you didn't hear that Al!), I almost fell off my chair when Al, in his usual soothing voice said, "We can only pay you $8 an hour to start!" I found out later that Al paid everyone $8 an hour at first, but I was on cloud nine as I began an investment career that has now spanned more than 15 years.

As we shared an interest in computers, Al and I hit it off right away and I was able to learn all facets of his stock analysis and portfolio management methodologies. I worked my way up the corporate ladder and became Director of Research and Chief Portfolio Manager in 1990 as Al moved into semiretirement when he relocated to Santa Fe. Naturally, he and I conversed daily and I came to embrace Al's patient investment philosophy.

...following his passing on April 25, 2002.

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THE PRUDENT SPECULATOR
Ode to Al Frank Page 2: May 2002

Eternal vigilance with benign neglect was one of Al's favorite sayings as we always sought to keep track of our portfolios on a daily basis without disturbing positions until well and truly indicated. Of course, it was not every investor who had the discipline to stick with undervalued stocks during periods of under-performance.

As Al once said, "We must know ourselves better than our stocks; we must deal with our own rationality more than our stocks' ratios; we must cope with our transient irrationality more than with the figurative fluctuations of our portfolios." Al did not set out to be an investment superstar. As the writer Donald Katz wrote in 1993 for Worth Magazine, "Al Frank was once a Linotype operator and then a printshop owner in Northern California. He was a professional shill at the Flamingo Hotel in Las Vegas, and a down-and-out would-be writer living the vagabond life in a hut on an island in Spain." He certainly had an interesting life.

As with all of us, Al's values and beliefs were shaped by experience. Until he discovered the stock market, Al never had much money, so bargain-hunting was always a way of life. That mentality always seemed to permeate everything that he did as even though he was worth several million dollars, he would still go out of his way to buy cheap gasoline or place an unfinished cigar in the crook of a tree before entering a restaurant so that he could smoke the rest later.

Indeed, the world has lost a legendary character and I have lost a mentor, partner and friend. Of course, as George Bernard Shaw said, "You can lose a man like that by your own death, but not by his." Goodbye Al. I will strive to uphold your legacy.

Of course, Al liked to say that one day he would go to stock market heaven, and outside of a certain resident of Omaha, Nebraska, he was probably the staunchest believer in equities.

While Al is no longer with us to share his investment wisdom, we still have hundreds of newsletters with his teachings and one of my favorite Frank quotes is, "We think of ourselves as partners in great corporations, growing in wealth as they prevail, rather than traders of pieces of paper."

That sentiment was echoed this weekend in Warren Buffett's Annual Letter to Berkshire Hathaway shareholders. The Oracle of Omaha had this to say about Berkshire's portfolio of publicly-traded stocks: "Charlie and I do not view the $172.8 billion detailed above as a collection of ticker symbols – a financial dalliance to be terminated because of downgrades by 'the Street,' expected Federal Reserve actions, possible political developments, forecasts by economists or whatever else might be the subject du jour…What we see in our holdings, rather, is an assembly of companies that we partly own and that, on a weighted basis, are earning about 20% on the net tangible equity capital required to run their businesses. These companies, also, earn their profits without employing excessive levels of debt."

And, while we are always enthusiastic about the long-term prospects for the equity markets, Mr. Buffett's conclusion provides a major reason for why we continue to be optimistic about the near-term: "Returns of that order by large, established and understandable businesses are remarkable under any circumstances. They are truly mind-blowing when compared against the return that many investors have accepted on bonds over the last decade – 3% or less on 30-year U.S. Treasury bonds, for example."

Certainly, we respect that anything can happen in the short run and that news out of Washington and Beijing will be paramount over the next few weeks, but we continue to believe that stocks in general remain attractively valued relative to fixed income.

THE PRUDENT SPECULATOR
Fed Model: Favorable Earnings Yield

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively rich earnings yield of 5.41%.

Put another way, we might argue that a P/E ratio on the S&P 500 of around 37 (the reciprocal of which would equal the current 10-year treasury yield of 2.65%) would be the point at which stocks would no longer be appealing, assuming interest rates remained as they are today. Such an earnings multiple would put the S&P at more than 5700, a wee bit higher than Friday's close a little below 2800!

To be sure, that is not a call that we expect stocks to double in price soon, but when one considers that the price increase for the Dow Jones Industrial Average has averaged 5.6% per annum over the last nine decades, 5700 on the S&P would be achieved around 2032 at that historical growth rate. And, if we use the 10.0% historical total return (includes dividends), an investment in the S&P might more than double in value by the start of 2027.

Indeed, the Miracle of Compounding is extraordinary, as Warren Buffett highlighted in the Berkshire letter. The first investment he made in 1942 when he was 11 years old cost $114.75. Had it been put into the S&P 500 and left alone (the hardest part, no doubt) with dividends reinvested and taxes ignored, that small sum would have been worth $606,811 on January 31, 2019. That represents a 5,288-fold increase!

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 seven of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

French life insurance company **AXA SA** (AXAHY – $24.47) posted solid adjusted EPS of $1.43 in fiscal S2 2018. Shares rose by more than 3.5% since Wednesday, a vote of confidence from investors as management noted that it saw "no deterioration" for asset management flows in the second half.

CEO Thomas Buberl said, "We have reached record earnings levels with AXA we have never seen despite the fact that we have been hit in Q4 by high natural catastrophes, mainly on the XL side. This was the first quarter of XL that we consolidated, and it was an abnormal quarter of natural catastrophes. We have achieved a 4% growth of revenue to €103 billion for all of AXA and this growth has very much been fueled by the growth of the three preferred segments: Commercial Line, Health and Protection."

Looking forward, Mr. Buberl added, "We reaffirm our previous target, which is €1.4 billion of underlying earnings by 2020, assuming we have a normalized net cap experience of 4% of gross earned premiums. On the underlying earnings per share, if you take the average across the years of beginning, from 2016 to now, we are at plus 5%, well in the range of the 3% to 7% that we have indicated on the 21st of June in 2016. On the free cash flow, very similar message. The ambition is to have a cumulative free cash flow of €28 billion to €32 billion by the end of 2020. When you look at where we are in terms of cumulative free cash flow, we are well underway with a contribution of €6.6 billion in 2018. On the adjusted return on equity, we are at 14.4%, again well in the range of 14% to 16% that we have also increased last November during our Investor Day. And then on the

solvency ratio, €193 million, which is again well situated in the range of €170 million to €220 million, again a range that we have adapted down from €230 million to €220 million."

AXA shares have climbed more than 14% year-to-date, following a difficult 2018. It seems the company's $15.3 billion acquisition of insurer XL Group is moving smoothly, despite the unit's contribution in Q4 suffering from abnormal losses due to natural catastrophes. With XL's reinsurance business integrated into AXA and co-selling in Europe, we think that the benefits from diversification and a broader portfolio remain present. Shares trade for less than 8 times forward earnings, with a solid net dividend yield of 5.0%. Our Target Price now resides at $40.

Mining firm **Newmont Mining** (NEM – $36.48) reported earnings per share of $0.40, versus the $0.25 estimate, in fiscal Q4 2018. NEM had sales of $2.0 billion (vs. $1.9 billion est.). Shares rose 3% following the announcement, bringing the stock's gain to 5.3% this year, though the favorable Q4 numbers might not have been the main reason for the positive move. More on that in a bit.

On the topic of Q4, CEO Gary Goldberg said, "Newmont delivered superior operational execution, which we demonstrated by producing 5.1 million ounces of gold at all in sustaining costs of $909 per ounce, overcoming geotechnical challenges and the impacts of planned stripping campaigns in North America and Australia. Generating $640 million in cost and efficiency improvements from our full potential continuous improvement program, more than offsetting inflation and bringing total improvements to more than $2 billion, since 2013, and advancing our most promising digital initiatives to improve safety, optimize how we mine and process ore, improve process control systems and monitor mobile equipment health from a centralized base."

In January, NEM announced a stock-for-stock transaction worth about $10 billion to buy rival Goldcorp. Mr. Goldberg said, "Newmont Goldcorp will operate a world-class portfolio of assets on four continents with the ability to target sustainable and profitable production of between 6 million and 7 million ounces of gold annually and have the benefit of additional revenue of about $1.5 billion from other products including silver, zinc and copper. We will have the sectors best project pipeline and exploration portfolio in terms of both quality and depth, and these prospects translate to the gold sector's largest reserve and resource base with long-term leverage to the gold price. We expect to generate $100 million in annual pre-tax synergies from G&A savings and a streamlined supply chain, and we plan to achieve additional benefits from the application of our proven full potential continuous improvement program where we have proven we can deliver sustainable cost efficiencies and productivity improvements of approximately $75 per ounce once fully ramped up. This equates to about $165 million per year combined with the $100 million of annual synergies, these efforts have the potential to deliver more than $2.5 billion in total value creation."

Newmont Goldcorp strategic combination

Creating the world's leading gold company:

- Strongest portfolio of operating gold mines, projects, and Reserves in favorable jurisdictions
- Targeting sustainable production of 6 to 7 million ounces of gold annually[1]
- Industry-leading dividend and investment-grade balance sheet
- Transaction expected to close in second quarter 2019

Value proposition:

- Expect $100M in annual pre-tax synergies primarily through G&A and supply chain savings
- Full Potential continuous improvements have track record of delivering ~$75/oz once fully ramped-up[11]
- Total value creation potential of >$2.5 billion[12]
- Further upside from project optimization, sequencing, exploration, and divestments
- Stable free cash flow from steady production and improving costs over a decades long horizon

February 21, 2019 Newmont Mining Corporation I Full Year and Q4 2018 earnings I Slide 25

While Goldcorp shareholders are set to vote on the union on April 4, Barrick Gold is apparently floating a "no-premium" offer to merge with Newmont to unite the world's two largest gold producers. We are not certain why Newmont management would be excited by such a transaction, nor do we see why shareholders would be enthused with no premium for their stock, though we do respect that synergies could likely be had that would make the combined company more profitable. We'll see what develops and though our gold miners have not treated us as well as we would have hoped as the price of the precious yellow has been subdued for quite some time, we continue to like NEM shares and the exposure to gold it gives our broadly diversified portfolios. Our Target Price for NEM, which sports a decent dividend yield of 1.5%, has been raised to $42.

Globally diversified bank **HSBC Holdings PLC** (HSBC – $40.71) reported earnings per share of $0.42, versus the $0.77 estimate, in fiscal Q4 2018. Shares fell nearly 5%, as analysts were disappointed with the company's EPS estimate miss, weak cost reductions ("jaws", more in CEO John Flint's comments below), lack of a dividend increase, no share buyback and revenue 7% below the consensus estimate.

Mr. Flint commented, "We made encouraging progress against seven of our eight strategic priorities in 2018. We've accelerated growth from Asia and our international network. We've established the UK ring-fenced bank, grown our UK customer base and increased our UK market share. The U.S. turnaround is our most challenging strategic priority. We made progress last year, but there is still much further to go. We've improved capital efficiency largely on the back of revenue growth. Our technology investment is improving customer service and making us more competitive. Again, there is more to do, but the progress is positive. The area where we've fallen short is jaws, strategic priority number six. When I updated you at the third quarter, we were on track for full year positive jaws. What we didn't know then was that markets would weaken in the last two months of the year and hit us and many other banks hard on revenue. While costs were on plan at the end of the year, revenues weren't because of market movements in the fourth quarter. I don't take the jaws miss lightly, and our commitment to the discipline of positive jaws has not changed."

He continued, "What has changed is the economic outlook, which has softened since our June strategy update and even since Q3. I'll go into the outlook in a bit more detail at the end of the presentation. But what we are seeing is that risk and uncertainty have increased and customers are more cautious. We remain alive and alert to these risks. When necessary, we are proactively managing costs and investments in line with a softer outlook, and we'll continue to do so. What we absolutely will not do, though, is take short-term decisions that harm the long-term interests of this organization. We will continue to invest sensibly and sustainably."

While HSBC climbed steadily from 2016 through early 2018, the more recent past has been challenging. Brexit concerns, combined with a weak European environment and global geopolitical uncertainty, have taken their toll on HSBC, but we continue to keep the faith. We like the bank's global footprint, which gives it the unparalleled ability to offer services around the world and believe HSBC's exposure to higher economic growth markets, as well as continued cost-cutting initiatives and efforts to improve operational efficiencies, should eventually boost the bottom line. Shares currently yield 6.3% and our Target Price now stands at $54.

Shares of **CVS Health** (CVS – $61.95) ended last week down more than 8% even as the healthcare giant reported favorable Q4 financial results. CVS posted adjusted EPS of $2.14, versus forecasts of $2.08, on revenue of $54.4 billion, which was above projections of $53.4 billion. CEO Larry Merlo stated, "2018 was a milestone year for CVS Health as we successfully completed our transformational merger with Aetna, began effective implementation of our integration strategy, and took important steps toward building the integrated healthcare model that will bring substantial value to our various stakeholders. We had strong financial performance and delivered on our operating expectations."

Mr. Merlo continued, "With the completion of the Aetna acquisition, we have set the stage for CVS Health to excel in a market that is rapidly transforming. We strongly believe in the long-term value that the full breadth of our capabilities can provide. Our unique combination will drive above-market growth going forward across all of the enterprise. Maintaining our focus on community-level products and services will drive meaningful value for both consumers and payors, while improving our bottom line and the value we return to shareholders. Ultimately, our open platform model allows us to meet the needs of all payors with newly created products and services. We're more excited than ever about the opportunities that lie ahead."

All that sounded good, but the problem for short-sighted investors was the company's forward guidance. CVS's full-year 2019 adjusted EPS is now projected to be in the range of $6.68 to $6.88, which was well below consensus analyst estimates north $7.40. Management said projections were impacted by significant additional deterioration in its long-term care business via its 2015 acquisition Omnicare. During 2018, management took two separate goodwill write-downs because of end-market disruption affecting its skilled nursing customers, totaling nearly half the amount CVS spent to acquire Omnicare. On a brighter note, the company expects to continue to generate strong cash flows in 2019, with projected cash flow from operations between $9.8 billion and $10.3 billion.

Mr. Merlo added, "2019 will be a year of transition as we integrate Aetna and focus on key pillars of our growth strategy. We are fully aware of the need to address the impact of certain headwinds that are having a disproportionate impact in 2019 compared to prior years, and importantly, we are taking comprehensive actions to move past them. We understand acutely the importance of balancing near-term execution with longer-term vision, and we are confident that our actions will position us well in 2020 and beyond."

Despite the growing competitive landscape, we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. Of course, we must be patient as the Aetna integration will take time and will not be without bumps in the road. That said, it is hard to think of the stock as anything other than a major bargain, given that the current share price implies an NTM adjusted EPS multiple of 9. With CVS also yielding 3.2%, we continue to like the long-term prospects of our investment, even as our Target Price has been trimmed to $119.

Shares of **Fluor** (FLR – $38.39) continued their strong 2019 rebound (the stock is up more than 19% YTD), after the engineering and construction giant reported Q4 financial results. While adjusted EPS of $0.77 came in more than 25% above investor expectations, revenue of $4.80 billion fell short of forecasts of $4.86 billion. The bottom-line beat wasn't as impressive as it seemed, as the company benefited from lower taxes, though FLR continued to endure pre-tax project charges on problematic power and downstream energy projects.

CEO David Seaton commented, "In 2018 Fluor continued to transform our approach to address the rapidly changing global markets and set the foundation for long-term sustainable growth. Despite the challenges we encountered last

year, we enter 2019 with a sizeable backlog and a compelling integrated solution for the end markets we serve."

Flour saw new awards exceed $10 billion, which was three times higher than in the same period last year. Currently, the backlog includes $17.8 billion of projects in its Energy & Chemicals segment, $15.3 billion in the Mining, Industrial, Infrastructure & Power segment, $4.6 billion in the Government segment and $2.3 billion in the Diversified Services segment.

Despite the good news on the backlog, we remain somewhat frustrated with FLR's inconsistent operational execution, so we continue to be in a show-me stance with the stock. That said, we still have a reasonably optimistic outlook because we continue to believe the capex cycle for energy and mining is intact, which seems to be supported by FLR's backlog announcements. FLR shares are currently trading at 13.5 times NTM adjusted EPS expectations and carry a dividend yield of 2.2%. Our Target Price remains at $57.

Health care equipment developer and manufacturer **Medtronic PLC** (MDT – $93.77) posted pretty good fiscal Q3 2019 financial results last week that were a bit-better-than-consensus analyst forecasts on both the top and the bottom-line. For the three-month period, adjusted EPS came in at $1.29, versus consensus estimates of $1.24. MDT had sales of $7.55 billion (vs. $7.52 billion est.). Organic quarterly top-line growth was 4.4%. Medtronic's Cardiac and Vascular Group grew 1.6%, Minimally Invasive Therapies Group grew 6.6%, Restorative Therapies Group grew 5.5% and the Diabetes Group grew 6.5%.

CEO Omar Ishrak said, "Our organization executed on multiple fronts to deliver a strong quarter for Medtronic. Revenue outperformance in our Minimally Invasive Therapies and Restorative Therapies Groups, as well as broad strength across Emerging Markets, helped to offset certain market-specific headwinds we faced during the quarter, reflecting the full benefits of our diversification."

He continued, "We continue to make progress on our robust and exciting pipeline, which contains more opportunities for growth than at any time in our company`s history. We expect this forthcoming innovation to disrupt existing markets and invent new markets, all with the goal of creating significant value – for patients, physicians, healthcare systems, and for our shareholders."

For fiscal 2019, the company updated its organic revenue growth guidance from a range of 5.0% to 5.5% to a range of 5.25% to 5.5%. Additionally, Medtronic increased its fiscal year 2019 adjusted EPS guidance from the prior range of $5.10 to $5.15 to a range of $5.14 to $5.16. MDT also increased its fiscal year 2019 free cash flow guidance from the prior range of $4.7 billion to $5.1 billion to a new range of $5.0 billion to $5.2 billion.

We continue to believe that MDT offers appealing long-term returns and think that the acquisition of Covidien a few years ago has produced a stronger and more appealing company. Pairing MDT's diversified product portfolio aimed at a wide range of chronic diseases with Covidien's breadth of products for acute care in hospitals (a 2015 merger) has strengthened the firm's position as a key partner for its hospital customers, which boosts our optimism about the long-term growth prospects. We remain fans of Medtronic's diverse portfolio, as when

certain product lines wane, new offerings are seemingly always rolled out to help offset slowdowns and foster growth. With domestic demographic trends in its favor, we like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT yields 2.1% and trades at 17.6 times NTM adjusted EPS projections. Our Target Price for MDT has been bumped up to $108.

Independent petroleum refiner **HollyFrontier** (HFC – $55.52) reported Q4 financial results last week that came in better than consensus analyst estimates for both the top and bottom lines. HFC posted revenue of $4.34 billion, versus expectations of $4.05 billion, and adjusted EPS of $2.25, compared to forecasts of $2.01. Holly's advantageously located refining footprint allowed it to continue to capture wide crude differentials during the quarter. Lubricants continued to struggle, but management believes better times are on the horizon with improving supply/demand balances.

CEO George Damiris commented, "HollyFrontier achieved strong financial results in 2018 as we were able to capture the favorable crude discounts and healthy product cracks across our refining system. We returned approximately $597 million in cash to shareholders in the form of regular dividends and share repurchases, while continuing to invest in our assets. Looking to 2019, despite tightening crude differentials, we are optimistic that strength in the diesel markets will continue and we will see a seasonal rebound in gasoline markets. On February 1, 2019, we closed on our previously announced acquisition of Sonneborn. With the addition of Sonneborn, we continue to focus on advancing our downward integration strategy into the high-margin finished lubricants and specialty products market."

We continue to like having our exposure to HFC especially as the stock trades for 10.2 times NTM adjusted earnings expectations and offers a dividend yield of 2.4%. We also like that Holly's refinery capabilities give the firm flexibility to tailor output more towards higher margin products as opportunities allow. Our Target Price for HFC is now $82.