Market Commentary Monday, April 8, 2019

April 7, 2019

EXECUTIVE SUMMARY

Week in Review – Q2 Off to a Nice Start; Apparent Progress on the Sino-American Trade Front
Yield Curve – 10-Year Less 3-Month Moves Further Away From Inversion
Econ News – Favorable Jobs Numbers & ISM Manufacturing; Mediocre ISM Non-Manufacturing
Fed Forecast – Modest GDP Growth Likely This Year
Corporate Profits – Decent EPS Growth Likely in 2019 and 2020
Dividends – Income from Stocks Remains Attractive Relative to Bonds
Sentiment – AAII Still Not Very Optimistic
Fund Flows – Investors Still Love Bonds
Dalbar QAIB 2018 – Only Problem with Market Timing is Getting the Timing Right
Wall of Worry – Brexit Still Not Resolved Nearly 3 Years and 37% Higher on the S&P 500 After the 2016 U.K. Vote
Stock Updates – WBA & DAL

Market Review

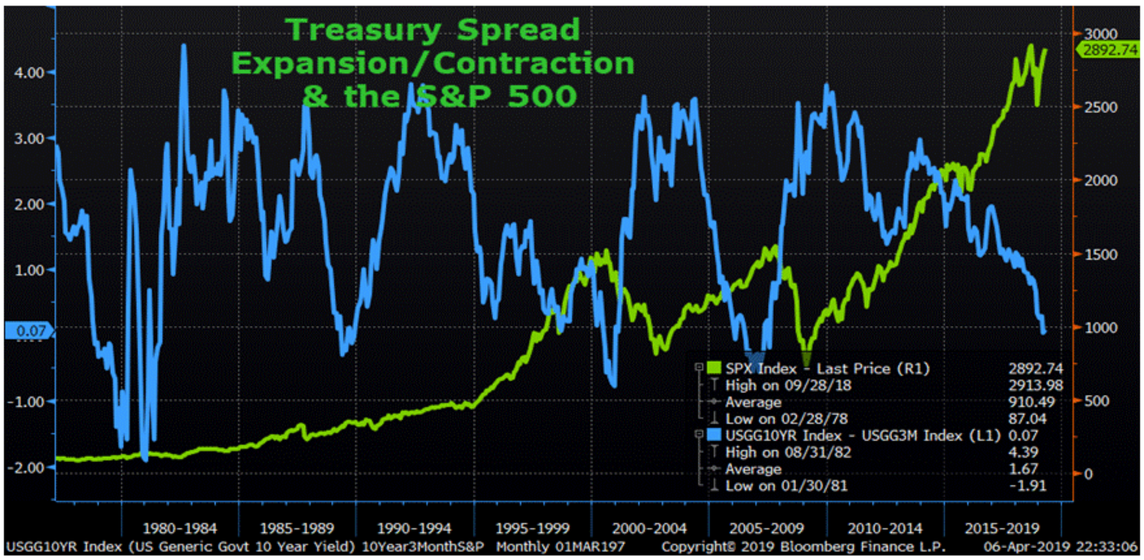
With the constant understanding that down moves in the equity markets can be even quicker and sharper, the first week of the second quarter was terrific for those of us who are long stocks. The major market averages gained 2% or more, continuing the 2019 rally and the terrific rebound since the December 24, 2018, Bear Market Lows.

No doubt, one of the catalysts for the gains was more apparent progress on the U.S.-China trade front, with President Trump suggesting that he is aiming to reach a deal in the next four weeks. To be sure, while the President proclaimed, "This is an epic deal, historic—if it happens," we will believe that the tariff skirmish will be over when the deal is actually completed. This is especially true, given that Robert Lighthizer was quick to say, "There are major, major issues left," though the U.S Trade Representative added, "We're certainly making more progress than we would have thought when we started."

Of equal importance, we believe, was the flurry of economic statistics out last week, most of which suggested that worries about an imminent recession, due in large part to a recent inversion of an important portion of the U.S. Treasury yield curve,…

THE PRUDENT SPECULATOR
10-Year – 3 Month Spread & Equities

The 10-Year less 3-Month U.S. Treasury spread rose to seven basis points on 4.5.19, moving further away from the recent negative territory that had some predicting recession. Of course, history shows that long-term-oriented equity folks really should not fear a yield curve inversion.



…were likely overblown. After all, the Employment Situation Report from the Bureau of Labor Statistics for March showed a sizable and better-than-expected rebound from February's dismal numbers.

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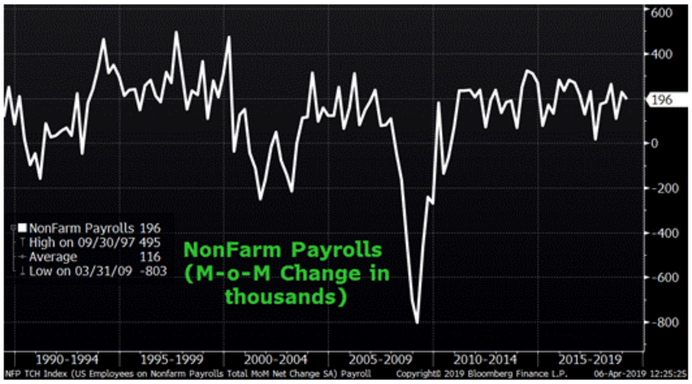
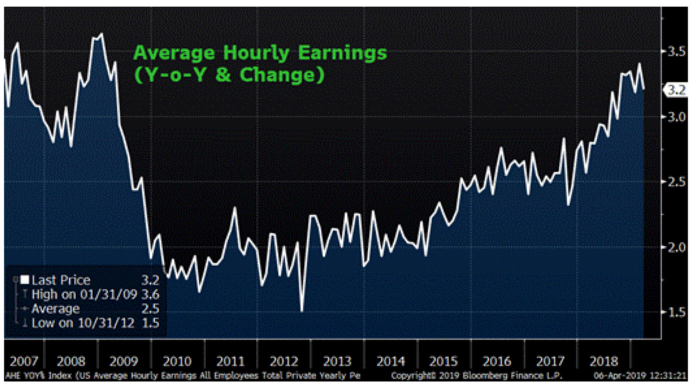
THE PRUDENT SPECULATOR
Solid Employment Report





Uncle Sam said that the number of new jobs created during March bounced back to 196,000, nicely above the consensus forecast in the 170,000 range and significantly better than the revised 33,000 tally for February. Meanwhile, the gain in average hourly earnings came in at 3.2% on a year-over-year basis, pulling back from a 3.4% advance in February and alleviating for the time being inflationary fears in the labor market.

Of course, given generational lows for the unemployment rate and initial jobless claims, it is hard to fathom that a recession could be on the horizon, even as we realize that economic conditions can quickly change.

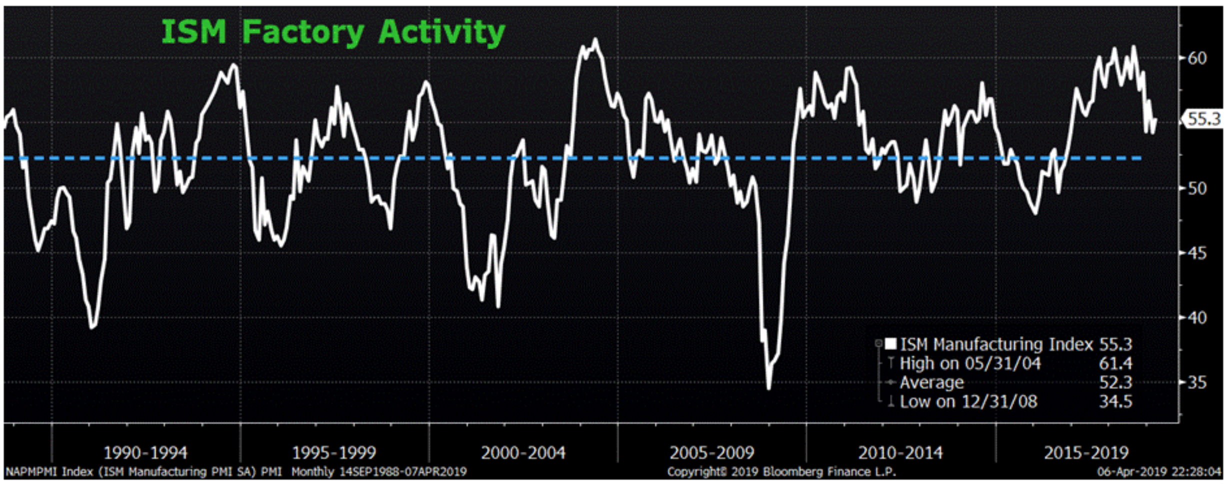
THE PRUDENT SPECULATOR
No Sign of Recession in the Jobs Picture

While the headline payrolls number in March came in better than expected, the unemployment rate held steady at 3.8% last month, near lows not seen in half a century. And, the latest figures (for the week ended 3.30.19) on first-time claims for unemployment benefits saw 202,000 new filings, the lowest level witnessed since December 1969 when the workforce was significantly smaller than it is today.

And, though we concede that economic growth most likely will slow this year from the 2.9% real GDP increase turned in for all of 2018, the latest statistics on the state of the factory sector,…

THE PRUDENT SPECULATOR
ISM Manufacturing Rebounds

The latest read on the health of the factory sector came in at a better-than-expected 55.3 for March, with the Institute for Supply Management stating, “The past relationship between the PMI® and the overall economy…corresponds to a 3.7% increase in real gross domestic product (GDP) on an annualized basis.”



…and service sector,…

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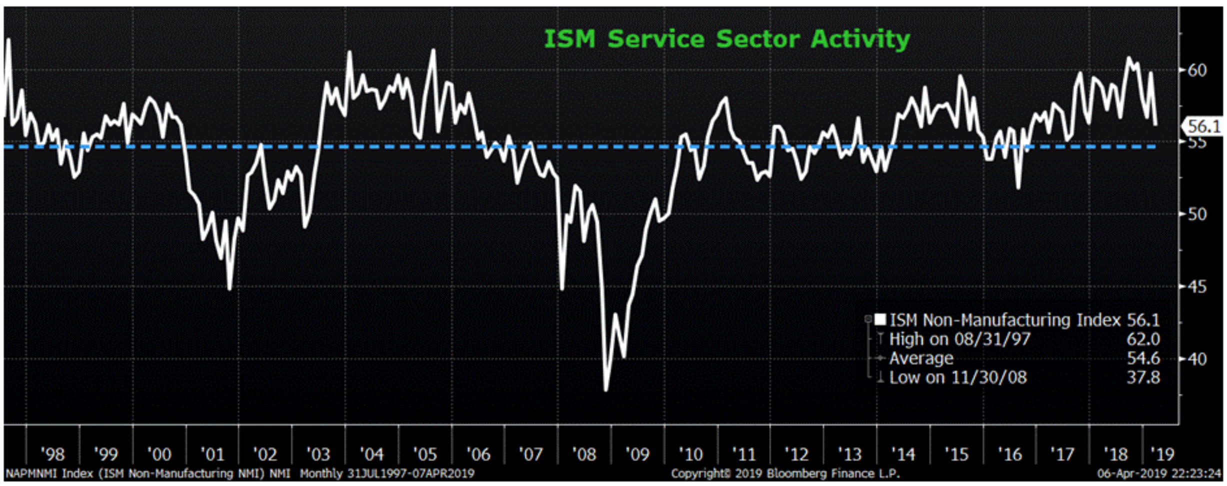
THE PRUDENT SPECULATOR
Still OK ISM Non-Manufacturing Tally

The latest read on the health of the service sector (NMI®) came in at a weaker-than-expected, though still above average, 56.1 for March, with the Institute for Supply Management stating, "The past relationship between the NMI® and the overall economy…corresponds to a 2.6% increase in real gross domestic product (GDP) on an annualized basis."



…suggest that the Federal Reserve's current GDP growth projection for 2019 might be conservative.

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THE PRUDENT SPECULATOR
No Recession in the Fed Forecast

The Fed left its longer-run GDP growth projection at 1.9%, though its outlook for 2019 growth (yes, growth!) decreased to 2.1%, down from 2.3%. The long-run forecast for the Federal Funds rate remains at 2.8%.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2019

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]				Central tendency[2]				Range[3]			
	2019	2020	2021	Longer run	2019	2020	2021	Longer run	2019	2020	2021	Longer run
Change in real GDP	2.1	1.9	1.8	1.9	1.9 – 2.2	1.8 – 2.0	1.7 – 2.0	1.8 – 2.0	1.6 – 2.4	1.7 – 2.2	1.5 – 2.2	1.7 – 2.2
December projection	2.3	2.0	1.8	1.9	2.3 – 2.5	1.8 – 2.0	1.5 – 2.0	1.8 – 2.0	2.0 – 2.7	1.5 – 2.2	1.4 – 2.1	1.7 – 2.2
Unemployment rate	3.7	3.8	3.9	4.3	3.6 – 3.8	3.6 – 3.9	3.7 – 4.1	4.1 – 4.5	3.5 – 4.0	3.4 – 4.1	3.4 – 4.2	4.0 – 4.6
December projection	3.5	3.6	3.8	4.4	3.5 – 3.7	3.5 – 3.8	3.6 – 3.9	4.2 – 4.5	3.4 – 4.0	3.4 – 4.3	3.4 – 4.2	4.0 – 4.6
PCE inflation	1.8	2.0	2.0	2.0	1.8 – 1.9	2.0 – 2.1	2.0 – 2.1	2.0	1.6 – 2.1	1.9 – 2.2	2.0 – 2.2	2.0
December projection	1.9	2.1	2.1	2.0	1.8 – 2.1	2.0 – 2.1	2.0 – 2.1	2.0	1.8 – 2.2	2.0 – 2.2	2.0 – 2.3	2.0
Core PCE inflation[4]	2.0	2.0	2.0		1.9 – 2.0	2.0 – 2.1	2.0 – 2.1		1.8 – 2.2	1.8 – 2.2	1.9 – 2.2	
December projection	2.0	2.0	2.0		2.0 – 2.1	2.0 – 2.1	2.0 – 2.1		1.9 – 2.2	2.0 – 2.2	2.0 – 2.3	
Memo: Projected appropriate policy path												
Federal funds rate	2.4	2.6	2.6	2.8	2.4 – 2.6	2.4 – 2.9	2.4 – 2.9	2.5 – 3.0	2.4 – 2.9	2.4 – 3.4	2.4 – 3.6	2.5 – 3.5
December projection	2.9	3.1	3.1	2.8	2.6 – 3.1	2.9 – 3.4	2.6 – 3.1	2.5 – 3.0	2.4 – 3.1	2.4 – 3.6	2.4 – 3.6	2.5 – 3.5

Source: Federal Reserve, March 20, 2019

And, whether growth is 2.1% as the Fed forecasts, or 2.6%, in line with the latest ISM Non-Manufacturing figure, we think that the backdrop for corporate profits should remain healthy.

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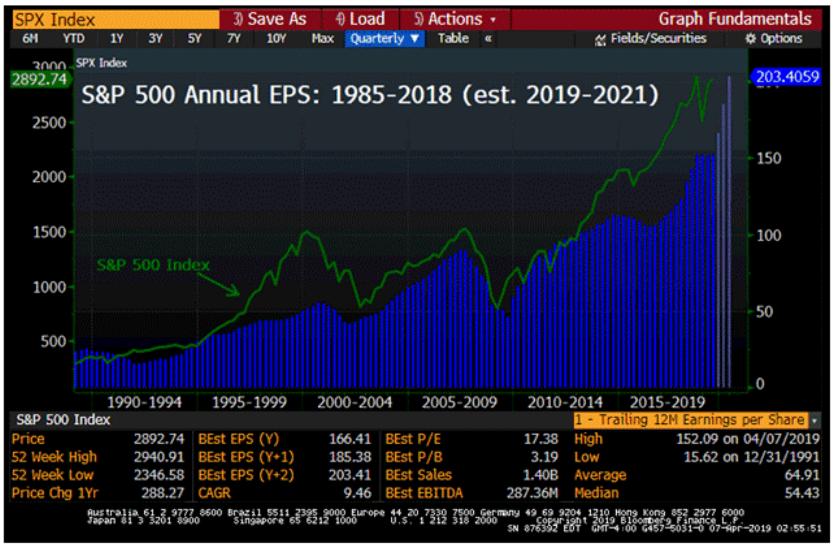
Growing Black Ink for Corporate America

Certainly, we understand that analysts are often overly optimistic in their projections, but sizable year-over-year earnings expansion is expected in '19, with further growth likely in '20 and '21.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$49.78	$186.41
9/30/2020	$48.20	$181.08
6/30/2020	$45.99	$176.08
3/31/2020	$42.44	$170.96
12/31/2019	$44.45	$165.34
9/30/2019	$43.20	$155.92
6/30/2019	$40.87	$154.10
3/31/2019	$36.82	$151.88
ACTUAL		
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26
9/30/2016	$28.69	$101.42
6/30/2016	$25.70	$98.17
3/31/2016	$23.97	$98.61
12/31/2015	$23.06	$100.45

Source: Standard & Poor's. As of 4.4.19

While it is difficult to envision a sustained downturn in stock prices without an earnings decline, we also believe that equities are supported by continued growth in dividend payouts,…

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Dividends Have Grown Over Time

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2019 (as of 3.29.19)	118	2	4	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3
Source: Standard & Poor's.				

S&P 500 DIVIDENDS PER SHARE	
2020 (Est.)	$62.02
2019 (Est.)	$58.11
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88
Source: Bloomberg. As of 4.5.19	

…especially as dividend yields remain very attractive in the historically low current interest rate environment.

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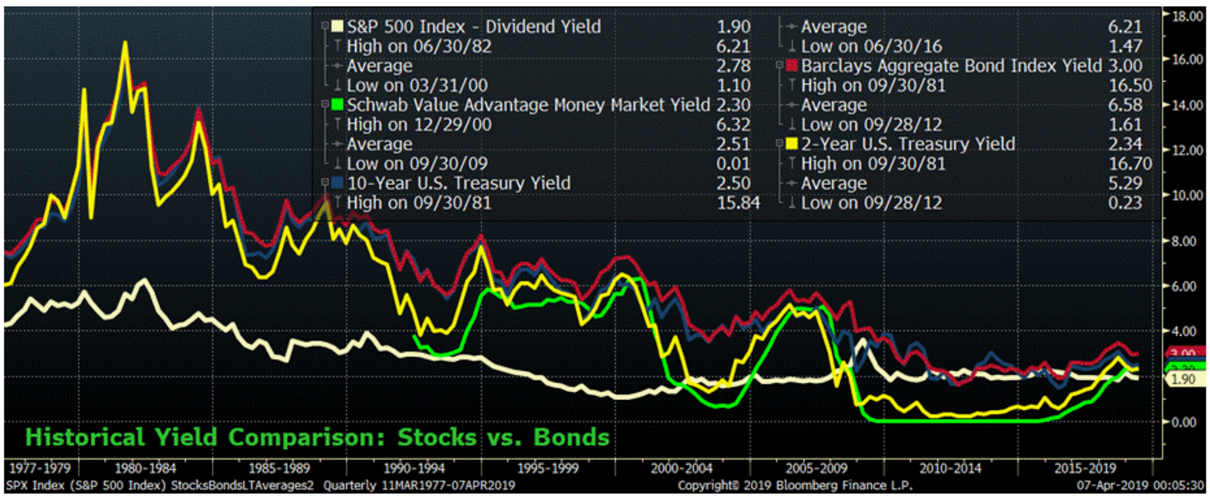
Stocks vs. Government Bonds – Income

Though stocks are not necessarily a substitute for government bonds, the payout on the S&P 500 (1.90%) is still very generous versus coupons on U.S. Treasury securities, especially as yields on the latter have been sinking…and prices rising. Of course, interest payments on bonds generally are fixed, while dividend payments usually rise over time.



So, we remain optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks generally of dividend paying companies, especially as we are not seeing any signs of excessive enthusiasm from investors, at least in terms of the latest sentiment survey from the American Association of Individual Investors.

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AAII Sentiment – Contrarian Gauge

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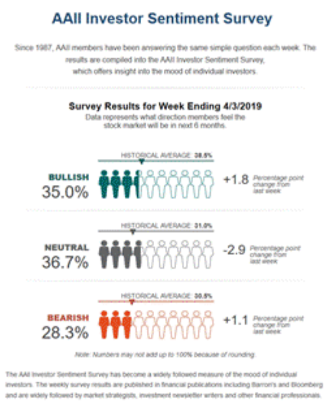
Given that the S&P 500 just closed less than 1.5% below it all-time high, we remain pleased to see a modest gap between optimists and pessimists in the latest sentiment survey from the American Association of Individual Investors. AAII data and subsequent equity performance suggest that while folks should be greedy when others are fearful, and Bullishness is below average at present, returns have been positive, on average, even with an "optimistic" AAII Bull-Bear Spread.



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.5										
BELOW	-54.00	8.48	824	0.24%	0.21%	1.15%	1.03%	3.18%	2.79%	6.50%	5.75%
ABOVE	8.49	62.86	802	0.16%	0.14%	0.49%	0.41%	2.01%	1.77%	4.58%	4.10%
	Ten Groupings of 1626 Data Points										
1	-54.0	-14.1	162	0.37%	0.30%	1.34%	1.09%	4.12%	3.50%	8.18%	6.79%
2	-14.1	-7.0	163	0.38%	0.35%	1.23%	1.11%	3.93%	3.60%	7.11%	6.51%
3	-6.8	-0.9	162	0.30%	0.27%	1.67%	1.58%	3.31%	2.91%	6.83%	6.12%
4	-0.8	3.5	160	0.15%	0.13%	1.00%	0.92%	2.45%	2.12%	5.82%	5.40%
5	3.5	8.0	166	0.00%	-0.03%	0.57%	0.48%	2.40%	2.13%	4.92%	4.38%
6	8.1	12.4	156	0.15%	0.14%	0.46%	0.37%	1.73%	1.51%	4.65%	4.13%
7	12.5	17.0	175	0.14%	0.12%	0.88%	0.80%	2.73%	2.52%	5.69%	5.28%
8	17.0	22.5	151	0.22%	0.21%	0.61%	0.53%	1.95%	1.66%	5.53%	5.04%
9	22.6	30.0	166	0.11%	0.09%	0.28%	0.20%	2.15%	1.89%	4.61%	4.02%
10	30.5	62.9	165	0.20%	0.18%	0.20%	0.13%	1.24%	1.01%	2.25%	1.82%

From 07.31.87 through 4.4.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

True, there can be a big difference between what folks say and what they do, but the masses for quite a while now have wanted little to do with U.S. equities and have had a tremendous love affair with bonds. Data compiled by the Investment Company Institute are stunning on domestic mutual and exchange traded fund flows going back to 2015, with a more than one-trillion-dollar gap between U.S. stock outflows and bond market inflows. Indeed, one wonders where stocks might be if mutual fund and ETF investors combined didn't hate them!

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Bonds Remain Stunningly Popular

While many think folks are infatuated with U.S. equities, data from the Investment Company Institute show that far more dollars have flowed out of domestic stock mutual funds/ETFs than have flowed in over the last 4.25 years. Bonds have been the major beneficiary of the exodus.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Mar-16	7,711	29,296	May-17	-10,816	33,128	Jul-18	984	25,956
Feb-15	5,547	30,321	Apr-16	-12,610	22,114	Jun-17	-8,022	29,420	Aug-18	-6,658	19,585
Mar-15	-1,494	4,905	May-16	-14,252	16,925	Jul-17	-12,386	29,164	Sep-18	880	18,102
Apr-15	-34,681	11,027	Jun-16	-15,530	16,623	Aug-17	-18,937	26,418	Oct-18	-12,009	-32,405
May-15	-17,287	5,010	Jul-16	292	33,575	Sep-17	-9,636	36,476	Nov-18	2,780	-11,250
Jun-15	-7,023	6,324	Aug-16	-9,956	30,859	Oct-17	3,211	38,818	Dec-18	-28,957	-49,413
Jul-15	-14,864	-1,255	Sep-16	-5,713	24,669	Nov-17	-4,429	21,628	Jan-19	-21,201	29,302
Aug-15	-18,569	-18,122	Oct-16	-23,109	13,855	Dec-17	-9,066	19,158	Feb-19	3,944	45,095
Sep-15	-4,725	-10,849	Nov-16	22,993	-13,289	Jan-18	10,777	56,779	Mar-19	764	35,816
Oct-15	-807	15,397	Dec-16	18,859	-4,142	Feb-18	-41,447	1,772	Totals:	-344,823	783,080
Nov-15	654	-5,573	Jan-17	4,966	31,061	Mar-18	-22,173	15,920			
Dec-15	476	-25,043	Feb-17	17,530	34,026	Apr-18	-7,422	22,435			
Jan-16	-27,222	7,686	Mar-17	8,906	36,632	May-18	9,970	13,108			
Feb-16	-9,108	11,915	Apr-17	-8,370	22,116	Jun-18	-13,123	14,470			

That said, given how awful fund investors are in timing their purchases and sales, maybe we don’t want them to rediscover equities. Incredibly, through the end of 2018, all of that money flowing into bonds over the last several years actually resulted in red ink (3- and 5-year returns) for the average fixed income investor, per the latest Quantitative Analysis of Investor Behavior (QAIB) study from Dalbar, Inc.

Few Come Close to Beating the Indexes

Since 1994, DALBAR's Quantitative Analysis of Investor Behavior has measured the effects of investor decisions to buy, sell and switch into and out of mutual funds over short and long-term timeframes. As the latest evidence (as of 12.31.18) reveals, folks are lousy market timers.

	Average Equity Fund Investor (%)	Average Fixed Income Fund Investor (%)	Average Asset Allocation Fund Investor (%)	S&P 500 (%)	BloombergBarclays Aggregate Bond Index (%)	Inflation (%)
20 Year	3.88%	0.22%	1.87%	5.62%	4.55%	2.17%
10 Year	9.66%	0.70%	4.53%	13.12%	3.48%	1.82%
5 Year	3.96%	-0.40%	1.50%	8.49%	2.52%	1.56%
3 Year	5.58%	-0.11%	1.84%	9.26%	2.06%	2.04%
12 Month	-9.42%	-2.84%	-6.97%	-4.38%	0.01%	1.93%

Equity fund holders are even worse in their ability to time their purchases and sales, with the general disinterest in stocks most likely having something to do with the sensationalistic media environment. Alas, folks are constantly reminded about all that is wrong in the world, while positive news generally attracts few eyeballs. That does not mean that we should simply ignore all the disconcerting events that are making headlines, and we note that the Brexit drama is presently the latest potential disaster du jour, but long-term-oriented investors know that stocks have been climbing a Wall of Worry since the dawn of the equity markets.

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Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	156%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	122%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	141%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	102%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	103%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	75%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	57%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		45%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		43%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		40%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		37%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		44%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		40%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		54%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%			37%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			35%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**36%**	**72%**	**71%**

Source: Kovitz Investment Group using data from Bloomberg. As of 4.5.19

No guarantees that a "Hard Brexit" won't trigger the next big market setback, but, believe it or not, not including dividends which would add to the gains, the S&P 500 has soared 37% since the U.K. Brexit vote in June 2016.

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

Walgreens Boots Alliance (WBA – $54.69) shares were hammered last week, falling 13.6% after a disappointing earnings report and outlook from the drug-store operator and health-services provider. Adjusted earnings per share for fiscal Q2 came in at $1.64 per share, short of an expected result of $1.72, on revenue totaling $34.53 billion, in line with estimates. For the full-year, WBA had been predicting adjusted EPS growth of 7% to 12%, but now believes that there will be little growth relative to fiscal 2018.

WBA CEO Stefano Pessina explained, “The market challenges and macro trends we have been discussing for some time accelerated, resulting in the most difficult quarter we have had since the formation of Walgreens Boots Alliance. During the quarter, we saw significant reimbursement pressure, compounded by lower generic deflation, as well as continued consumer market challenges in the U.S. and UK. While we had begun initiatives to address these trends, our response was not rapid enough given market conditions, resulting in a disappointing quarter that did not meet our expectations. As a result, we are now expecting roughly flat adjusted EPS growth for fiscal 2019.”

The company is taking action to combat the slowdown, with Mr. Pessina adding, “We are going to be more aggressive in our response to these rapidly shifting trends. We are focusing on our operational strengths and addressing weaknesses, making a number of senior appointments to bring change and accelerating the digitalization and transformation of our business. This will include expediting the execution of our partnership initiatives, fully developing our in-store neighborhood health destinations, re-imagining our front-end retail offering, optimizing our store footprint and increasing the annual savings goal of our transformational cost management program from in excess of $1 billion to more than $1.5 billion. As a result of these actions, our business model will deliver improved performance in fiscal 2020, positioning us for mid-to-high single-digit growth in adjusted EPS in the following years.”

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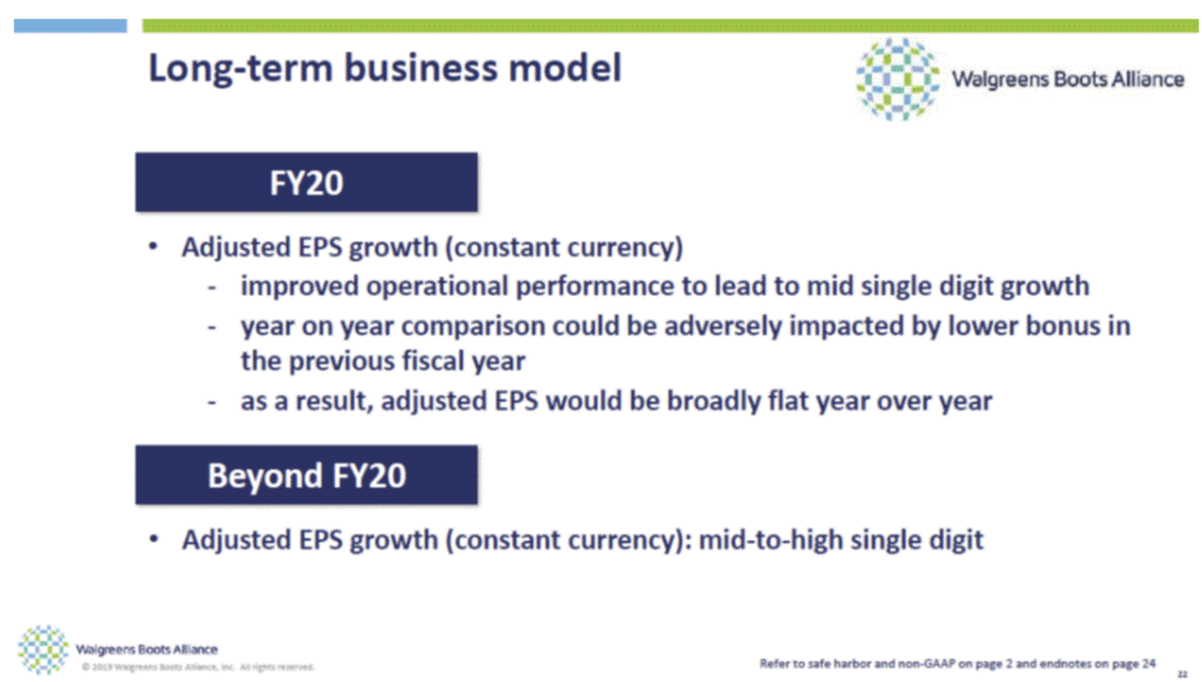
THE PRUDENT SPECULATOR
WBA – Still a Long-Term Growth Story



Though we are obviously disappointed by the continued thumping the stock has endured and we know that the backdrop in the retail pharmacy space is likely to remain challenging due to ongoing reimbursement pressures and competitive headwinds, we also see the earnings expectations bar being reset. We believe this lowered outlook and pessimistic investor stance make the estimates not only achievable, but potentially beatable as we consider the numerous levers management can use to offset ongoing pressure, including store-optimization initiatives, the transformational cost-management program and digitalization efforts.

We continue to believe that over the long term, WBA will benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations. Even with the inevitable downgrades to profit projections, analysts see EPS for WBA moving from $6.11 in fiscal 2019 to $6.56 in fiscal 2021. WBA also typically generates solid free cash flow and we expect the dividend payout (the yield is currently 3.2%) to continue to rise over the ensuing years. We have cut our Target Price to $102, but we note that the stock now trades for less than 9 times earnings, while we very much like that Walgreen Boots Co-Chief Operating Officer Ornella Barra purchased 18,000 WBA shares last week for a total of $982,080.

Countering the bad news from Walgreens, shares of **Delta Air Lines** (DAL – $57.73) took flight last week after the air carrier said it anticipates better-than-expected EPS of $0.85 to $0.95 for Q1 (vs the prior range of $0.70 to $0.90). Revenue is expected to climb 7% year-over-year in Q1, in addition to margin expansion and $1.6 billion returned to shareholders.

The latest update included four highlights:

+ Signing a contract renewal with American Express through 2029, leveraging shared strengths to deliver best-in-class value to customers and doubling the expected benefits to Delta to nearly $7 billion annually by 2023, up from $3.4 billion in 2018

+ Completing $1.3 billion in share repurchases in the March quarter by opportunistically buying back 26 million shares, reaffirming Delta's commitment to consistent shareholder returns

+ Celebrating the one-year approval of the airline's joint venture with Korean Air, featuring award winning products, including Delta One Suites and Delta Premium Select available on our new aircraft, including the Airbus A350, and expanding to the Boeing 777

+ Participating in the 16th Delta Global Build with Habitat for Humanity and partnering with employees from GOL to construct six new homes for local families in Brazil, bringing the total to 270 built or rehabilitated homes in 13 different countries by Delta since 1995

Capacity is expected to be up around 5% (we continue to view too much capacity growth as a negative), but we think the number hovers right around the maximum prudent growth rate given the current market environment. Delta continues to strive to woo business travelers by renovating lounges around the world, offering gate transfers via Porsche and serving top-notch food, in an effort to ensure that the highest-margin travelers return. This strategy is paying off, with business revenue helping boost the operating margin in Q1. In addition, DAL trades for 8.7 times NTM earnings and yields 2.4%. Our Target Price has been lifted to $75.