# Market Commentary Monday, June 3, 2019

June 2, 2019

**EXECUTIVE SUMMARY**

*TPS 632* – June Newsletter Coming By Wednesday Morning
Target Prices – Updated Listing Coming
Tariffs – Markets Continue to Struggle
Volatility – 29 Times S&P Has Declined 5% Since Financial Crisis
Yield Curve Inversion – Historical Evidence
Econ Data – Numbers Generally Still Healthy
Recession – Presently Not Projected; Stock Return Data
Income – Dividend Yields Even More Competitive
Stock Updates – MRVL, DBI & WSM

**Market Review**

Work is underway on the June edition of *The Prudent Speculator*. If all goes according to plan, we are endeavoring to have *TPS 632* emailed to readers late Tuesday evening, June 4, or early Wednesday morning, June 5. This month, we offer two first-time recommendations along with our quarterly Earnings Scorecard feature. We are also in the process of posting updated Target Prices for all our holdings to our website, theprudentspeculator.com.

It was a miserable end to a miserable month, with the May selloff gathering momentum last week after President Trump on Friday threatened new tariffs, this time on Mexico. And, with little progress made in resolving the ongoing trade skirmish with China, and Beijing actually ratcheting up the rhetoric in recent days, the turbulence on the global trade front obviously has been exacerbated, so the equity markets appear to be in for continued rough sledding when trading resumes this week.

No doubt, we are concerned about the near-term impact from the trade battles on U.S. stocks in general and our broadly diversified portfolios of what we believe to be undervalued names in particular, especially as we find significant value in companies that do business around the world. We realize that the equity markets generally do not like uncertainty as many folks adopt a shoot-first-and-ask-questions-later attitude, with many stocks hit far harder than one might argue is deserved, but time and again short-term difficulties have been overcome in the fullness of time.

# THE PRUDENT SPECULATOR

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## Volatility is Normal: Value/Divs Win Race

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% | 108.0% | 925 | 26 | 3.5 | 3/9/2009 | 4/30/2019 |
| 17.5% | 66.5% | 573 | 38 | 2.4 | 12/24/2018 | 4/30/2019 |
| 15.0% | 66.2% | 557 | 44 | 2.1 | 12/24/2018 | 4/30/2019 |
| 12.5% | 43.8% | 332 | 71 | 1.3 | 12/24/2018 | 4/30/2019 |
| 10.0% | 34.9% | 247 | 105 | 0.9 | 12/24/2018 | 4/30/2019 |
| 7.5% | 23.4% | 147 | 154 | 0.6 | 12/24/2018 | 4/30/2019 |
| 5.0% | 14.7% | 73 | 298 | 0.3 | 12/24/2018 | 4/30/2019 |

**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 | 298 | 0.4 | 4/30/2019 | 5/31/2019 |

From 02.20.28 through 5.31.19. 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 | 13.2% | 25.9% |
| Growth Stocks | 9.5% | 21.4% |
| Dividend Paying Stocks | 10.5% | 18.0% |
| Non-Dividend Paying Stocks | 8.8% | 29.5% |
| Long-Term Corporate Bonds | 6.0% | 7.5% |
| Long-Term Gov't Bonds | 5.5% | 8.5% |
| Intermediate Gov't Bonds | 5.1% | 4.3% |
| Treasury Bills | 3.3% | 0.9% |
| Inflation | 2.9% | 1.8% |

From 06.30.27 through 03.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French 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

Obviously, market volatility is not unusual, and it is fascinating to see the consternation in the financial press about the current setback, even as it is presently in the 7% range from the recent highs, at least as far as the S&P 500 goes. We never want to downplay losses, as our portfolios were hit very hard last month, but even worse 10% drops have happened every 0.9 years on average and 15% corrections have taken place every 2.1 years. True, it would be nice to somehow sidestep the downturns, but given that we have had 29 dips of 5% or more just since the end of the Financial Crisis, we suspect that most who manage to skirt some of the moves down have also missed out on many of the usually stronger rebounds. Indeed, we continue to believe that the only problem with market timing is getting the timing right.

# Ups and Downs Aplenty…Just Since '09

**S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Opposite Direction**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2/9/2009 | 3/9/2009 | -22.23% | BEAR | 3/9/2009 | 3/26/2009 | 23.11% | BULL |
| 3/26/2009 | 3/30/2009 | -5.44% | BEAR | 3/30/2009 | 6/12/2009 | 20.15% | BULL |
| 6/12/2009 | 7/10/2009 | -7.09% | BEAR | 7/10/2009 | 10/19/2009 | 24.89% | BULL |
| 10/19/2009 | 10/30/2009 | -5.62% | BEAR | 10/30/2009 | 1/19/2010 | 11.01% | BULL |
| 1/19/2010 | 2/8/2010 | -8.13% | BEAR | 2/8/2010 | 4/23/2010 | 15.19% | BULL |
| 4/23/2010 | 5/7/2010 | -8.74% | BEAR | 5/7/2010 | 5/12/2010 | 5.47% | BULL |
| 5/12/2010 | 6/7/2010 | -10.34% | BEAR | 6/7/2010 | 6/18/2010 | 6.38% | BULL |
| 6/18/2010 | 7/2/2010 | -8.49% | BEAR | 7/2/2010 | 8/9/2010 | 10.29% | BULL |
| 8/9/2010 | 8/26/2010 | -7.14% | BEAR | 8/26/2010 | 2/18/2011 | 28.25% | BULL |
| 2/18/2011 | 3/16/2011 | -6.41% | BEAR | 3/16/2011 | 4/29/2011 | 8.49% | BULL |
| 4/29/2011 | 6/15/2011 | -7.20% | BEAR | 6/15/2011 | 7/7/2011 | 6.94% | BULL |
| 7/7/2011 | 8/8/2011 | -17.27% | BEAR | 8/8/2011 | 8/15/2011 | 7.60% | BULL |
| 8/15/2011 | 8/19/2011 | -6.72% | BEAR | 8/19/2011 | 8/31/2011 | 8.49% | BULL |
| 8/31/2011 | 9/9/2011 | -5.30% | BEAR | 9/9/2011 | 9/16/2011 | 5.35% | BULL |
| 9/16/2011 | 10/3/2011 | -9.60% | BEAR | 10/3/2011 | 10/28/2011 | 16.91% | BULL |
| 10/28/2011 | 11/25/2011 | -9.84% | BEAR | 11/25/2011 | 4/2/2012 | 22.47% | BULL |
| 4/2/2012 | 6/1/2012 | -9.94% | BEAR | 6/1/2012 | 9/14/2012 | 14.69% | BULL |
| 9/14/2012 | 11/15/2012 | -7.67% | BEAR | 11/15/2012 | 5/21/2013 | 23.34% | BULL |
| 5/21/2013 | 6/24/2013 | -5.76% | BEAR | 6/24/2013 | 1/15/2014 | 17.50% | BULL |
| 1/15/2014 | 2/3/2014 | -5.76% | BEAR | 2/3/2014 | 9/18/2014 | 15.47% | BULL |
| 9/18/2014 | 10/15/2014 | -7.40% | BEAR | 10/15/2014 | 3/2/2015 | 13.69% | BULL |
| 5/21/2015 | 8/25/2015 | -12.35% | BEAR | 8/25/2015 | 9/16/2015 | 6.84% | BULL |
| 9/16/2015 | 9/28/2015 | -5.69% | BEAR | 9/28/2015 | 11/3/2015 | 12.12% | BULL |
| 11/3/2015 | 2/11/2016 | -13.31% | BEAR | 2/11/2016 | 6/23/2016 | 5.64% | BULL |
| 6/23/2016 | 6/27/2016 | -5.34% | BEAR | 6/27/2016 | 1/26/2018 | 43.60% | BULL |
| 1/26/2018 | 2/8/2018 | -10.16% | BEAR | 2/8/2018 | 3/9/2018 | 7.96% | BULL |
| 3/9/2018 | 4/2/2018 | -7.35% | BEAR | 4/2/2018 | 9/20/2018 | 13.55% | BULL |
| 9/20/2018 | 11/23/2018 | -10.17% | BEAR | 11/23/2018 | 12/3/2018 | 5.99% | BULL |
| 12/3/2018 | 12/24/2018 | -15.74% | BEAR | 12/24/2018 | 4/30/2019 | 25.30% | BULL |
| 4/30/2019 | 5/31/2019 | -7.04% | BEAR | | | | |

While the S&P 500 skidded 7% during an ugly May, we suspect that few realize that we have just had the 29th pullback of 5% or more without an intervening 5% recovery just since the Financial Crisis market low on March 9, 2009. Happily, the gains in the 29 periods where the S&P has gained more than 5% have dwarfed the losses.

So, we understand that we will take our lumps on many occasions as we work to achieve long-term investment objectives, with the catalysts for the downturns nearly always disconcerting. Through all the ups and downs, we strive to stay on an even keel, always remembering that the key to success in stocks is not to get scared out of them, while looking to take advantage of opportunities that the short-term volatility creates.

Of course, it doesn't hurt to have plenty of data at our fingertips to help cope with the often-scary headlines. For example, there is plenty of media and financial pundit consternation about the inverted yield curve, as the 3-Month U.S. Treasury now yields more than the 10-Year Treasury, with the difference as of Friday's close a hefty 0.22%. While we understand that a yield curve inversion has been a harbinger of recession in prior instances, we generally agree with the argument asserted in this weekend's *Barron's Magazine*. In short, the inversion is being influenced heavily by the shortage of safe long-term assets, due to the Fed siphoning off Treasuries and agency mortgage-backed securities, and the increased global demand for them. As such, long-term yields have been unusually depressed, making suspect any conclusions drawn from the inversion.

# THE PRUDENT SPECULATOR

## Myth Busting - Yield Curve Inversions

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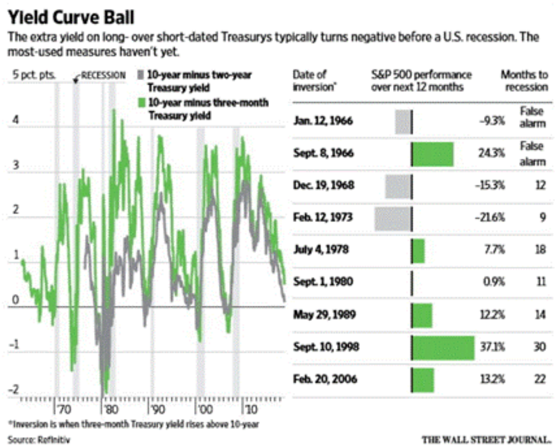
Pundits are shouting dire warnings that a recession is imminent as the U.S. Treasury yield curve has again inverted, with the San Francisco Fed concluding that the spread between the ten-year and three-month yields has the best predictive power of economic contraction. While the spread on 5.31.19 was -22 basis points (i.e. an inversion), stocks have performed admirably, on average, after previous 10Y/3M inversions.




**S&P 500 Total Return Post 10-Year/3-Month Yield-Curve Inversion**

| Inversion Date | 1 Year S&P 500 TR | 3 Year S&P 500 TR | 5 Year S&P 500 TR | 10 Year S&P 500 TR | To 5.31.19 S&P 500 TR |
|---|---|---|---|---|---|
| 1/12/1966 | -6.8% | 19.3% | 17.6% | 46.2% | 14438% |
| 9/8/1966 | 28.4% | 34.2% | 58.3% | 97.0% | 17432% |
| 12/19/1968 | -11.8% | 4.3% | 4.8% | 30.6% | 11489% |
| 2/12/1973 | -19.1% | -2.6% | -4.4% | 105.0% | 9180% |
| 7/4/1978 | 13.3% | 58.4% | 131.5% | 352.6% | 8892% |
| 9/1/1980 | 5.6% | 56.7% | 96.8% | 300.3% | 6113% |
| 5/29/1989 | 16.0% | 42.6% | 66.2% | 423.5% | 1524% |
| 9/10/1998 | 39.8% | 15.7% | 10.7% | 48.2% | 316% |
| 1/20/2006 | 15.5% | -36.2% | 16.0% | 84.3% | 183% |
| **S&P Total Return** | **9.0%** | **21.4%** | **44.2%** | **165.3%** | **7730%** |

*Source: Kovitz Investment Group using data from Bloomberg and Refinitiv via The Wall Street Journal*

However, for those who are worried about what the bond market is portending, we should point out that stocks have not exactly performed poorly following previous yield-curve inversions, while the equity markets have historically moved higher over the long-term no matter what has happened with the 10-Year/3-Month yield spread.

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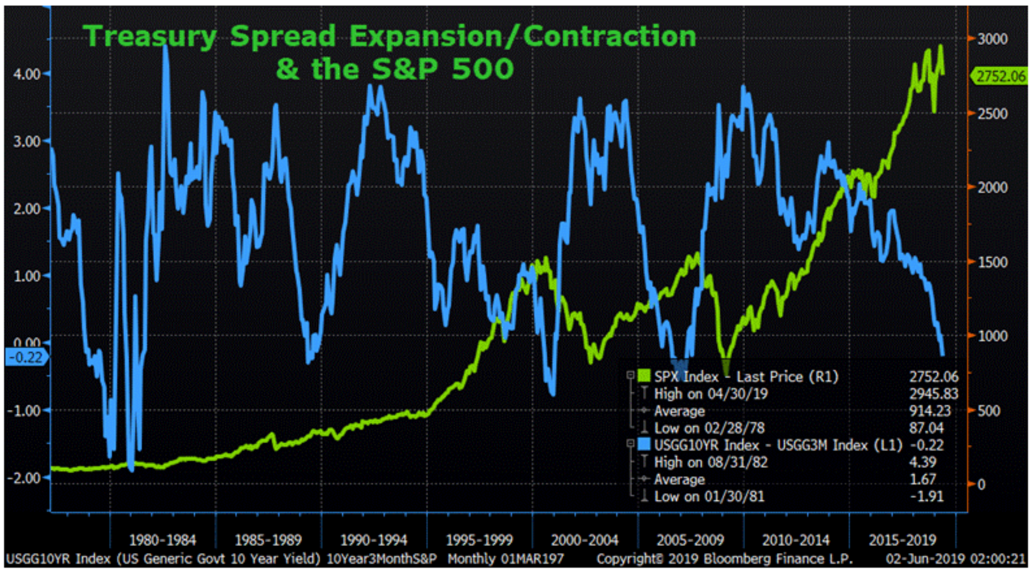
# THE PRUDENT SPECULATOR
## 10-Year – 3 Month Spread & Equities

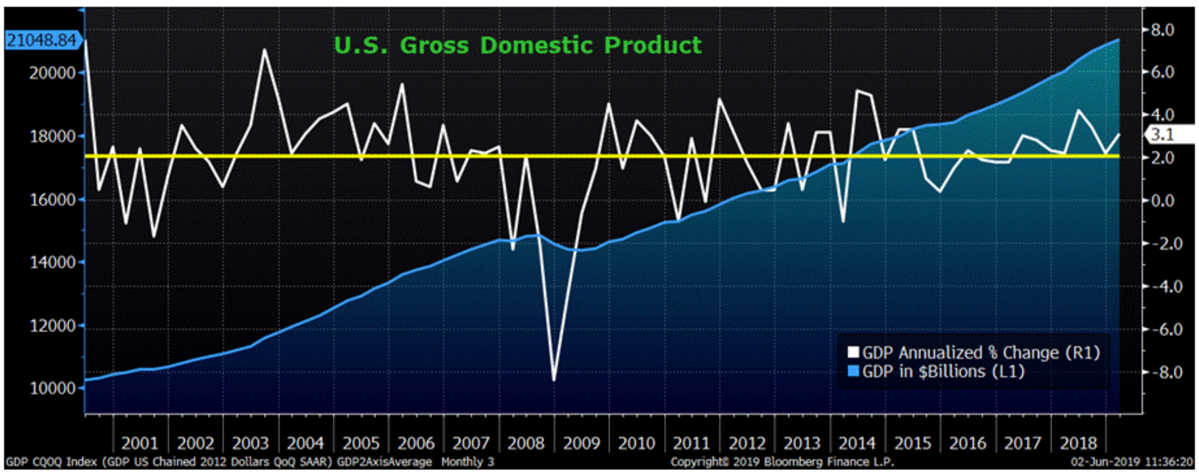
While the important 10-Year less 3-Month U.S. Treasury spread dipped further into negative territory on 5.31.19, history shows that long-term-oriented equity market investors have done just fine over the past four-plus decades despite several yield-curve inversions along the way.




That does not mean to say that we are certain to avoid a recession, especially given the trade headwinds, but we note that Q1 GPD growth came in at a revised 3.1%,…

# U.S. Economic Growth Picked Up in Q1

Uncle Sam calculated Q1 ‘19 GDP growth at a revised and surprisingly healthy 3.1% annualized real (inflation-adjusted) rate, improving nicely on the 2.2% rate turned in for Q4 ‘ 18. True, growth is likely to slow considerably as we move forward, with some thinking a recession is imminent, due to the escalating trade skirmishes, but even a modest downturn would still see the economy expand on a nominal basis.




…while the latest data out last week on the health of the consumer from Uncle Sam…

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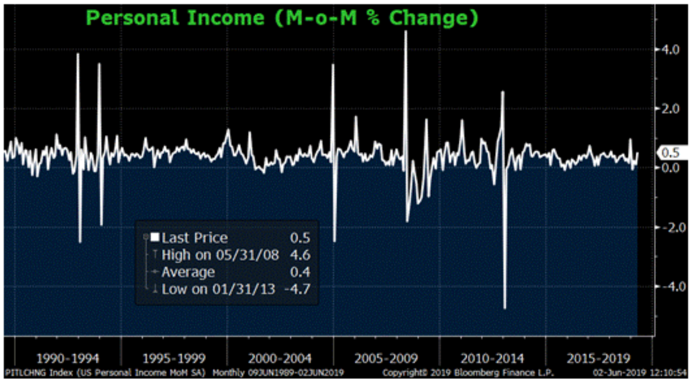
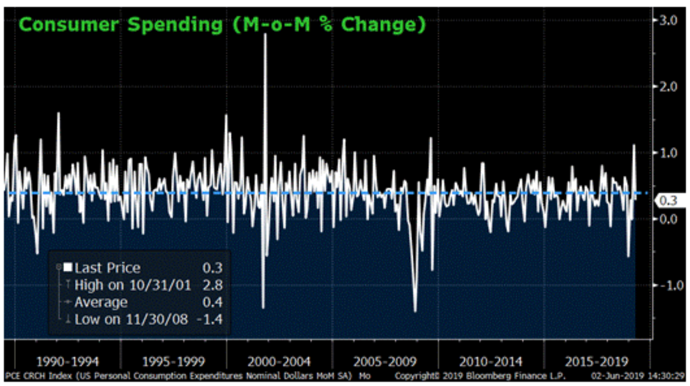
## THE PRUDENT SPECULATOR
## Better-than-Estimated Income/Spending

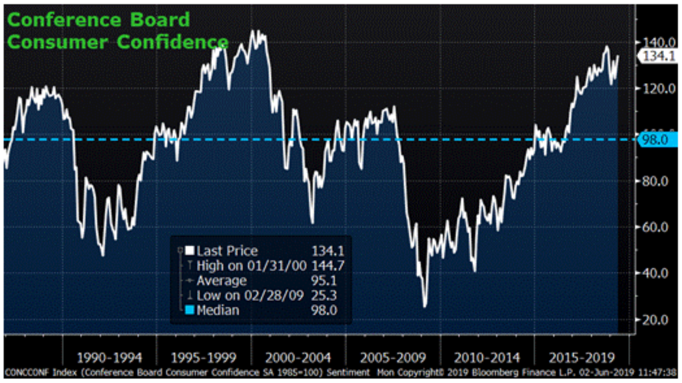


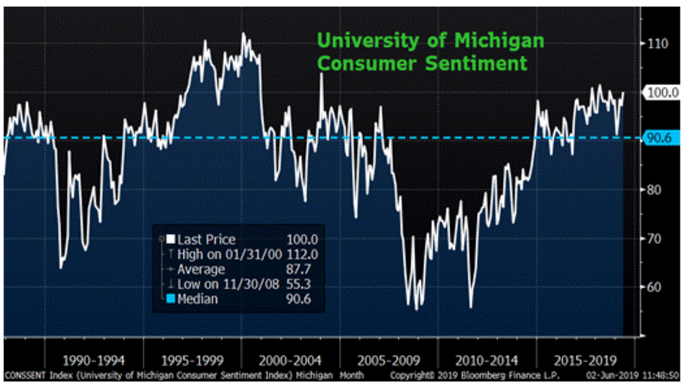




Though the numbers do not reflect the escalation of the tariff skirmish during May, the Commerce Department reported that personal incomes rose 0.5% in April, the best monthly gain this year. Meanwhile, Commerce said that consumer spending climbed a solid 0.3% in April, and the fact that consumers earned more than they spent means that there is dry powder available in savings for future expenditures.

…and other independent entities has been upbeat.

## THE PRUDENT SPECULATOR
## Consumers Continue to be Optimistic



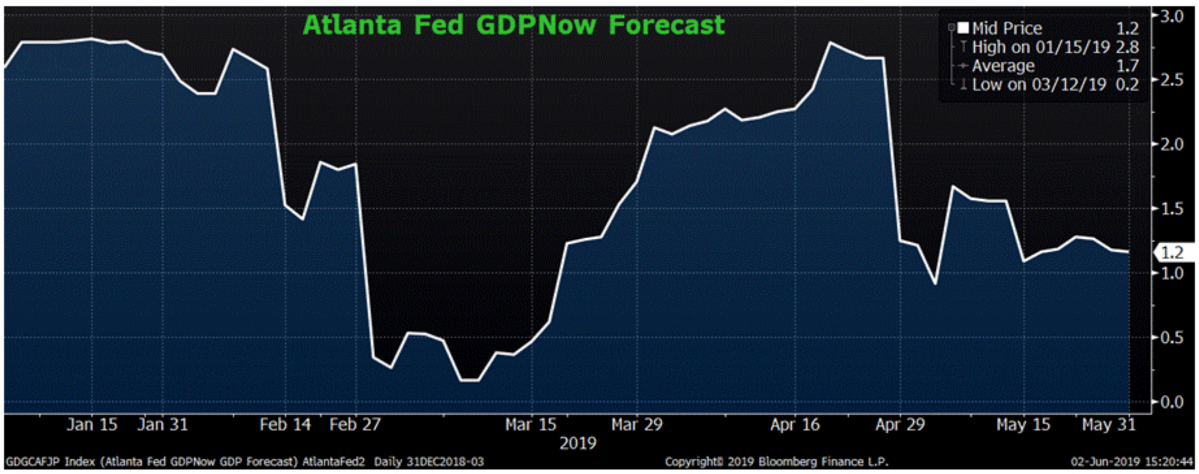

The Conference Board's final read of Consumer Confidence for May came in at a better-than-expected 134.1, up from 129.2 in June and much higher than the median over the last 30 years. It was a similar story with the Univ. of Michigan's gauge of Consumer Sentiment, as the measure for May rose to 100.0, well above the long-term median and the best showing since September. That said, the tally trailed estimates, weakening late in the month.

Yes, the outlook for the balance of 2019 has been weakening, with a significant slowdown seemingly in the cards, but it still looks likely that the U.S. will avoid an economic contraction,…

# THE PRUDENT SPECULATOR

## Recession Not Presently the Prediction

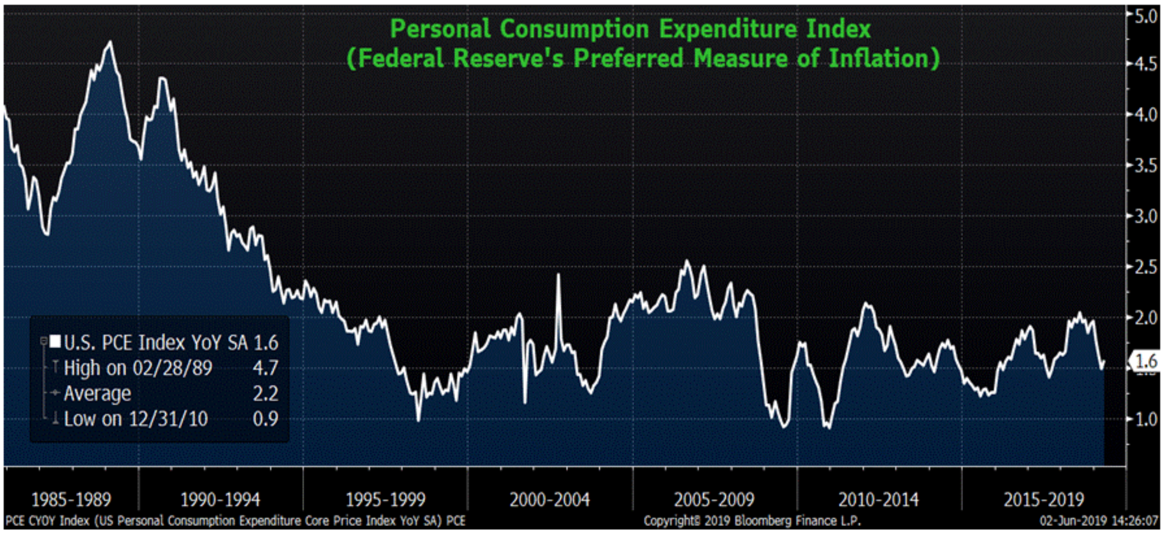
As the old saw goes, economists have predicted nine of the last five recessions, and the soothsaying so far in 2019 vividly illustrates why we like the Niels Bohr quotation, "Prediction is very difficult, especially if it is about the future." Indeed, three months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then sink anew to a 1.2% guess today.




…especially as the Federal Reserve arguably has plenty of cover to cut interest rates to bolster growth if necessary.

## THE PRUDENT SPECULATOR
## Inflation Continues to be Unusually Low

With the “core” Personal Consumption Expenditure (PCE) for April coming in at a 1.6% year-over-year gain, the Federal Reserve’s preferred measure of inflation remains below the desired 2.0% level, meaning that there is certainly ability for Jerome Powell & Co. to reduce the Federal Funds rate target should economic conditions deteriorate.




That said, economic prognostication is hardly an exact science and the supposed experts could be wrong regarding the consensus GDP forecast. As such, it is reassuring to look at the historical equity market return data prior to and following recessions,…

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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**

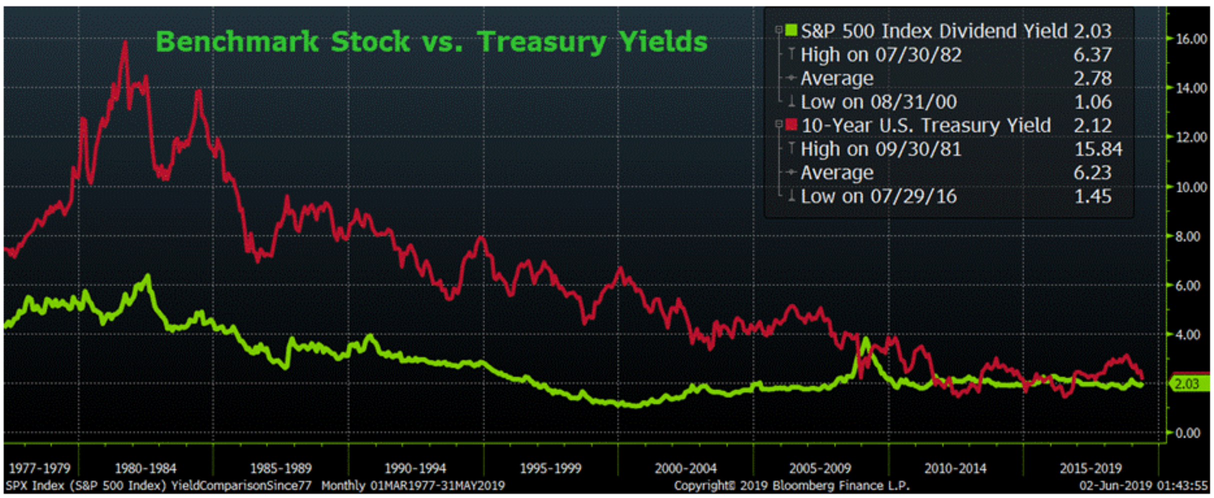
| Year Prior S&P 500 TR | Year Prior FF Value TR | Recession Start Date | 1 Year S&P 500 TR | 1 Year FF Value TR | 3 Year S&P 500 TR | 3 Year FF Value TR | 5 Year S&P 500 TR | 5 Year FF Value TR | 10 Year S&P 500 TR | 10 Year FF Value TR | To Present S&P 500 TR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 51.9% | 30.8% | August 1929 | -32.6% | -32.0% | -73.5% | -64.9% | -71.1% | -61.4% | -58.0% | -47.7% | 192227% |
| 18.2% | 42.6% | May 1937 | -39.3% | -55.8% | -33.2% | -55.1% | -32.5% | -44.3% | 53.7% | 142.7% | 357256% |
| 26.3% | 54.4% | February 1945 | 26.0% | 42.2% | 12.0% | 28.5% | 64.3% | 75.7% | 379.2% | 468.6% | 257473% |
| 4.0% | 4.6% | November 1948 | 19.2% | 12.4% | 101.8% | 108.9% | 145.2% | 130.7% | 542.0% | 584.7% | 209125% |
| 3.1% | 4.7% | July 1953 | 31.9% | 25.6% | 128.9% | 118.0% | 136.5% | 138.2% | 308.5% | 381.9% | 86385% |
| -1.2% | -0.4% | August 1957 | 10.0% | 16.4% | 40.2% | 55.0% | 55.1% | 77.9% | 188.9% | 418.4% | 39648% |
| -2.4% | -6.4% | April 1960 | 24.2% | 29.0% | 41.7% | 51.5% | 92.4% | 131.0% | 107.7% | 268.9% | 29849% |
| -8.4% | -20.9% | December 1969 | 3.9% | 8.7% | 41.4% | 40.3% | -11.3% | -7.3% | 77.0% | 267.9% | 12827% |
| -15.2% | -19.4% | November 1973 | -23.8% | -14.8% | 20.8% | 77.1% | 23.7% | 142.4% | 182.3% | 719.9% | 10831% |
| 20.6% | 31.3% | January 1980 | 19.5% | 12.3% | 49.5% | 80.4% | 102.4% | 183.5% | 342.4% | 480.7% | 6776% |
| 13.0% | 22.9% | July 1981 | -13.3% | -0.8% | 34.0% | 78.6% | 127.9% | 217.1% | 343.4% | 408.6% | 5454% |
| 6.5% | -6.9% | July 1990 | 12.7% | 9.9% | 38.2% | 76.0% | 83.2% | 129.3% | 407.0% | 424.9% | 1312% |
| -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%** | **86395%** |

*As of 5.31.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research*

…while we can't help but be enthused about how much more competitive equities have become versus fixed income from a yield comparison over the past month.

# THE PRUDENT SPECULATOR
## S&P 500 vs. 10-Year U.S. Treasury Yields

Though we respect that equities and fixed income are two different asset classes, the current payout on the S&P 500 (2.03%) is extremely generous relative to the present 2.12% yield on the 10-Year U.S. Treasury. After all, the income offered by the benchmark government bond historically has been more that twice that of the S&P.




And, coupons on bonds generally are fixed, while dividend payments on stocks often increase (and, to be fair, they can decrease) over time!

## THE PRUDENT SPECULATOR
## 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 5.23.19) | 174 | 3 | 5 | 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.) | $62.07 |
| 2019 (Est.) | $58.14 |
| 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 5.31.19* | |

None of the above is meant to imply that conditions in the equity markets won't get worse before they get better, but we believe that the trade squabbles eventually will be resolved, especially given that we are now just 17 months from the 2020 Presidential elections. Your Editor will be looking to take advantage of the selloff by adding to some of the hardest hit names in Buckingham Portfolio this month, and the Investment Team has its eyes on a couple of other stocks, in addition to the two new recommendations that we will unveil later this week. We remain optimistic about the next three-to-five years, even as we concede that the next three-to-five months may require extra investor patience.

**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/, Chris Quigley offers updates on 3 of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

Semiconductor firm **Marvell Technology Group** (MRVL – $22.30) reported earnings per share of $0.16, versus the $0.14 estimate, in fiscal Q1 2020. MRVL had sales of $662.0 million (vs. $650.0 million est.). Shares traded higher by 0.5% following the announcement in an otherwise lousy Friday market session, following a nice gain earlier in the week on news that NXP Semiconductors NV agreed to buy Marvell's Wi-Fi connectivity business in a deal valued at $1.76 billion. Given that the unit generated $300 million in revenue, a nearly 6x multiple paid in cash has to be viewed positively.

CEO Matt Murphy said, "We recognized that the market was softening late last year and our view was that after many years of growth, our industry was down for a contraction, particularly against an increasingly uncertain geopolitical backdrop. Nevertheless, we determined that despite the challenging environment, we would sustain our R&D investments and continue to collaborate closely with customers in each of our growth markets. And rather than just wait out the down period, we continue to assess the external market for inorganic opportunities and systematically managed our current portfolio to accelerate our pivot to infrastructure solutions. This culminated in the three transactions we recently announced, namely our planned acquisitions of Aquantia, and Avera, as well as the divestiture of our WiFi business."

Mr. Murphy continued, "Recently we were approached by several companies interested in acquiring this business to help leverage their scale in the fast-growing connected consumer and IoT markets. Unlike Marvell, these companies already possess both microcontrollers and a broad distribution channel critical for these markets but were missing WiFi capabilities. As we evaluated these opportunities, it became clear to us that our high-performance connectivity assets would yield a much greater economic value at a company with a strong microcontroller franchise than they would as part of Marvell. This resulted in our agreement to sell this business to NXP. Fundamentally, the transaction value is significantly higher than what we could have extracted from this business over time on our own."

CFO Jean Hu added, "We continue to tightly manage our practices in a difficult environment. I'm also very pleased to report that we successfully integrated the Marvell and the Cavium ERP systems early in the fourth quarter. With the ERP integration complete, we expect to achieve our OpEx synergy goal from Cavium acquisition in the upcoming second fiscal quarter, six months ahead of our plan. Let me now move on to our current outlook for the second quarter of the fiscal 2020. This guidance takes into account our estimated revenue impact from the US government's current export restriction to one of our customers. We expect our revenue to be $650 million plus or minus 3%. Our expected GAAP gross margin will be approximately between53% and 54%, and non-GAAP gross margin will be in the range of 63% to 64%. This projection for gross margin reflects a weaker product mix due to impact of the export restriction, relatively lower storage revenue and the seasonally strong consumer based product ramp. We do expect our non-GAAP gross margin to return to above 64% in the following quarter. We project our GAAP operating expenses to be between $370 million and the $380 million. And the non-GAAP operating expenses to be in the for $285 million to $290 million. We expect net interest expense to be $19 million and the non-GAAP tax rate to remain 4.5%. We anticipate GAAP loss per diluted share in the range of $0.09 to $0.05, and the non-GAAP income per diluted the share in the range of $0.13 to $0.17."

We have been pleased with the speedy Cavium integration and on the heels of a rough 2018, MRVL shares have had a stellar 2019 (up 38%). Shares have come a little bit off April's peak and we think the future remains bright with plenty of upside for the focused firm. Analysts estimate that forward EPS will grow from $0.37 in fiscal 2016 to $1.63 by 2021. Our Target Price for MRVL now stands at $28.

Footwear retailer **Designer Brands** (DBI – $18.09), formerly DSW Inc. and trading with the ticker DSW, earned $0.43 per share in fiscal Q1 2020 (vs. $0.42 est.). DBI had sales of $879.0 million, versus the $875.0 million estimate. The battered shares initially rebounded more than 10% on Thursday morning to trade above $20, but quickly gave back all that ground, ending the week down 4.6%. DBI said it expects FY 2020 EPS to come in between $1.87 and $1.97, well ahead of the company's previous EPS guidance of $1.80 to $1.90. A reduction in share count thanks to stock buybacks accounts for the improved forecast, as the revenue outlook remains unchanged at "low double-digit growth." Of course, the company may be able to buy back a few more shares than originally planned, given the shellacking the stock price has taken since trading near $30 just three months ago.

DSW CEO Roger Rawlins commented, "I'm excited, because we are seeing continued growth in all of our retail segment, while also making great progress and leveraging the [just-acquired] Camuto Group infrastructure for the benefit of Designer Brands and readying the organization to begin moving the production of our private brands to our Camuto organization. Our integration work at Camuto is in high gear, already producing many of our GWP taking on replenishment orders for fall exclusive brand business and strong double-digit growth in our own digital direct to consumer businesses. We also paid our quarterly dividend and repurchased approximately 4.5% of our outstanding shares for $75 million."

Mr. Rawlins also commented on the tariff threat, "Non-athletic footwear is still heavily reliant on Chinese production and supply chain and while we and our peers have been working to move production out of China for some time now, the fact remains footwear is a very capital, intensive industry with years of planning required to make sourcing decisions. Companies cannot simply move factories to adjust to these changes instantaneously. We're looking at the total impact in risk assessing our mitigation alternatives such as cost sharing with vendors and factories, accelerating our private brand rollout at DSW, considering alternative componentry, new and innovative business growth across all of our divisions, meaningful SG&A reductions and synergies and potentially some level of incorporating a portion of the tariff within the retail cost of our products. We believe we have identified actions that can mitigate the vast majority of the direct impact of a 25% tariff. That being said, we can't predict the impact this action could have on consumer spending and we'll provide a projected annualized EPS impact, if the tariffs are instituted. And we have time to see the consumers and competitors respond. We sincerely hope that rational thinking will prevail and footwear will continue to be excluded from any new tariffs, but we are ready to respond if they occur, and in fact, our executing portions of our mitigation plan regardless of actual implementation."

The competitive retail environment and the recent tariff uncertainty have obviously weighed on the DBI share price, even as the company has continued to execute well. We remain attracted to management's shareholder friendly actions and improvements in store traffic and ticket size, as well as the investment in children's footwear and its successful loyalty program. DBI believes its acquisition of the Camuto Group will add important design, production, distribution and marketing capabilities. Shares now trade at less than 10 times NTM adjusted earnings expectations with a hefty yield of 5.5%. Our Target Price is $32.

Luxury home goods retailer **Williams-Sonoma** (WSM – $58.50) earned $0.81 per share in fiscal Q1 2020 (vs. $0.69 est.). WSM had revenue of $1.2 billion, versus the $1.2 billion estimate. Shares rose 13% following the announcement, propelled by the company's increased year-over-year EPS forecast. WSM expects to earn $4.55 to $4.75 per share in 2020 (vs. the analyst midpoint of $4.60) on revenue of $5.67 billion to $5.84 billion (unchanged from initial FY guidance).

CEO Laura Alber stated, "We had a strong start to 2019 with comp revenue growth of 3.5%. Operating margin expansion of 70 basis points and EPS growth of 21%. Customer acquisition and engagement continued to grow as we delivered more compelling and differentiated experiences to our customers. We also reached a significant milestone for our company as we were named for the first time to the Fortune 500 largest companies in the United States. This accomplishment speaks to the hard work and dedication of all of our associates, the ongoing support of our loyal customers and the power of our highly differentiated platform in driving long-term profitable growth. Given our strong start to the year and the strength we are seeing early in the second quarter, we are raising our full year EPS guidance by $0.05. This raise reflects momentum across our business and our confidence in the substantial growth engines we are executing against. Our financial performance this quarter demonstrates the exciting progress we've made across the business to accelerate growth and improve profitability."

Ms. Alber offered comments on WSM's rewards program, "The Key Rewards is one of our most valuable and fastest growing assets. Since the launch of this loyalty program two years ago, total membership has grown to 5.5 million. Key members currently spend on average 3 times more than nonmembers with 2 times higher purchase frequency and 3 times more likely head to shop across multiple brands. They also drive a significant lift in sales, as Key members typically spend over 5 times the value of their rewards. We will introduce new cross-brand marketing initiatives, broad reaching gamification, easier reward redemptions and enhance mobile and desktop capabilities to accelerate customer enrollment and realize the full potential of this program. We will also leverage the key to raise brand awareness and drive more personalized content to our customers."

Ms. Alber concluded, "It's important to us that we are making a difference in the world through the products that we put in people's homes. This is a key reason why customers choose us over our competitors. I encourage you to take a deeper look at the progress we are making in areas such as worker wellbeing and our supply chain. GREENGUARD certification of our furniture and sustainable sourcing of cotton an FSC certified wood and our upcoming Annual CSR report. As we look to the balance of the year, we believe we are uniquely positioned to capture the significant opportunities we see in the home furnishings industry. We'll continue to build on our strong momentum to achieve our goals maximizing growth and drive profitability across our portfolio of brands."

Shares of WSM have outpaced the broad-market S&P 500 this year, which we think is reflective of the brand's traction with consumers. West Elm continues to drive earnings with group-best growth and strong popularity with younger customers. We think that WSM remains a compelling value proposition (with metrics like a 12.5 times forward P/E ratio, a 3.3% yield, which was just increased, and a 0.8 times P/S ratio) with strong growth prospects. We continue to like WSM's investments in technology, collaborations with other brands, in-store and in-home design consultations and sizable online presence. Our Target Price has been hiked to $84.