Market Commentary Monday, July 22, 2019

July 21, 2019

EXECUTIVE SUMMARY

Buckingham in London – *Forbes Cruise* Volatility Could Ensue
History Lesson – Contrarian Thinking
Sentiment – Low Yielding Bonds Still Getting Plenty of Love
Economy – Data Still Pretty Good Though Growth Will Slow
Friendly Fed – Fed Funds Rate Cut Coming
Interest Rates – Equities Attractive vs. Fixed Income
Corporate Profits – Q2 Numbers OK So Far
Stock Updates – BAC, ABT, GS, MSFT, IBM, COF, SYF, SLB, MAN, JPM, BBT, CMA & C

Market Review

Greeting from London where your Editor is en route to rendezvous with the Crystal Serenity and the *32nd Forbes Baltic Cruise for Investors*. We suppose that we should keep our fingers crossed that this sailing won't coincide with another sizable market sell-off, as has been the case on a couple of previous cruises. Of course, we know that volatility is hardly unusual, while there really is no way to predict the timing of the gyrations,…

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THE PRUDENT SPECULATOR
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	6/3/2019	-6.84%	BEAR	6/3/2019	7/15/2019	9.83%	BULL
	Average Drop	**-8.97%**	**BEAR**		**Average Increase**	**14.55%**	**BULL**

While the S&P 500 skidded 6.8% during an ugly May, we suspect that few realize that this was 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 30 periods where the S&P has gained more than 5% have dwarfed the losses.

…but history shows that setbacks, no matter the reason, have always been overcome in the fullness of time. To be sure, it is not easy to stay invested through thick and thin, especially as disconcerting events can trigger emotional reactions to bail out of stocks, often at the most inopportune time,…

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THE PRUDENT SPECULATOR
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%	164%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	128%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	148%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	108%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	109%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	80%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	62%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		49%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		47%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		44%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		41%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		48%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		44%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		58%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		41%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			39%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**72%**	**76%**

Source: Kovitz Investment Group using data from Bloomberg. As of 7.19.19

…while it is fascinating that one of mankind's greatest triumphs preceded a 13% skid in the Dow Jones Industrial Average over the ensuing 12 months.

THE PRUDENT SPECULATOR
Small Step Backward; Giant Leap Forward

"All the News That's Fit to Print"

The New York Times

LATE CITY EDITION

VOL. CXVIII ..No. 40,731 NEW YORK, MONDAY, JULY 21, 1969 10 CENTS

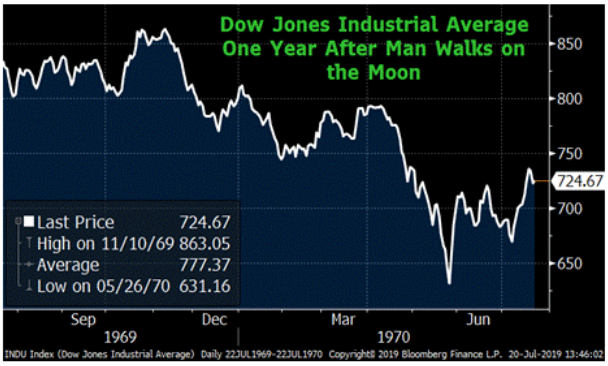
MEN WALK ON MOON

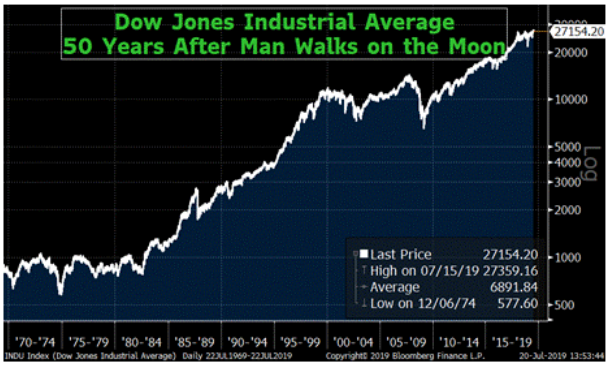
ASTRONAUTS LAND ON PLAIN; COLLECT ROCKS, PLANT FLAG

Voice From Moon: 'Eagle Has Landed'

A Powdery Surface Is Closely Explored

One year after the "Eagle has Landed," the Dow Jones Industrial Average had dropped from 834.02 to 724.67 (-13.1%), but 50 years after touchdown, the Dow is 32 times higher, not counting all the dividends paid along the way!





This contrarian perspective in mind, we are not unhappy, though we remain perplexed as to why, that these days there seems to be so little interest in stocks,…

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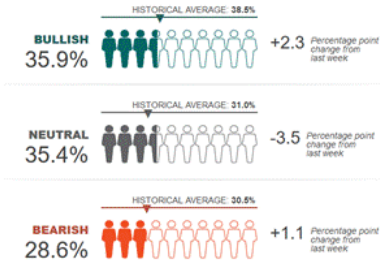
THE PRUDENT SPECULATOR
Still Little Main Street Optimism

AAII Investor Sentiment Survey

Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.

Survey Results for Week Ending 7/17/2019

Data represents what direction members feel the stock market will be in next 6 months.



Note: Numbers may not add up to 100% because of rounding.

The AAII Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

July 18, 2019 Optimism among individual investors about the short-term direction of the stock market increased for the fourth consecutive week.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 2.3 percentage points to 35.9%. This is a 10-week high. Nonetheless, bullish sentiment remains below its historical average of 38.5% for the 10th consecutive week and the 22nd time this year.

Bearish sentiment, expectations that stock prices will fall over the next six months, rebounded by 1.1 percentage points to 28.6%. Pessimism was last lower on May 8, 2019 (23.2%). The historical average is 30.5%.

With stock indexes having recently hit record highs, it is fascinating that optimism remains below normal in the latest AAII Sentiment Survey, while flows into domestic stocks in early July were incredibly negative via data compiled on mutual and exchange traded funds by ICI.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/10/2019	7/2/2019	6/26/2019	6/19/2019	6/12/2019
Total Equity	1,373	-28,756	-8,827	10,128	5,043
Domestic	2,382	-25,153	-5,417	11,676	6,195
World	-1,009	-3,603	-3,410	-1,548	-1,152
Hybrid	-46	-560	-1,947	-156	-1,282
Total Bond	9,858	10,435	10,528	7,932	11,934
Taxable	7,694	8,810	8,011	6,342	10,653
Municipal	2,164	1,625	2,517	1,590	1,281
Commodity	208	143	1,703	389	317
Total	11,393	-18,737	1,456	18,292	16,012

Source: Investment Company Institute

…and so much enthusiasm for bonds,…

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THE PRUDENT SPECULATOR
Bonds Remain Stunningly Popular

With the S&P 500 near an all-time high, many think folks are infatuated with U.S. equities, but data from the ICI show that a massive net sum of money has flowed out of domestic stock mutual funds/ETFs over the last 4-plus 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	-21,191	29,298
Aug-15	-18,569	-18,122	Oct-16	-23,109	13,855	Dec-17	-9,066	19,158	Feb-19	3,604	45,094
Sep-15	-4,725	-10,849	Nov-16	22,993	-13,289	Jan-18	10,777	56,779	Mar-19	-3,658	38,363
Oct-15	-807	15,397	Dec-16	18,859	-4,142	Feb-18	-41,447	1,772	Apr-19	-5,326	40,472
Nov-15	654	-5,573	Jan-17	4,966	31,061	Mar-18	-22,173	15,920	May-19	-24,375	21,018
Dec-15	476	-25,043	Feb-17	17,530	34,026	Apr-18	-7,422	22,435	Jun-19	4,636	35,019
Jan-16	-27,222	7,686	Mar-17	8,906	36,632	May-18	9,970	13,108	**Totals:**	**-374,640**	**882,131**
Feb-16	-9,108	11,915	Apr-17	-8,370	22,116	Jun-18	-13,123	14,470			

…even when a massive amount of those fixed income instruments are guaranteed to lose principal if held to maturity.

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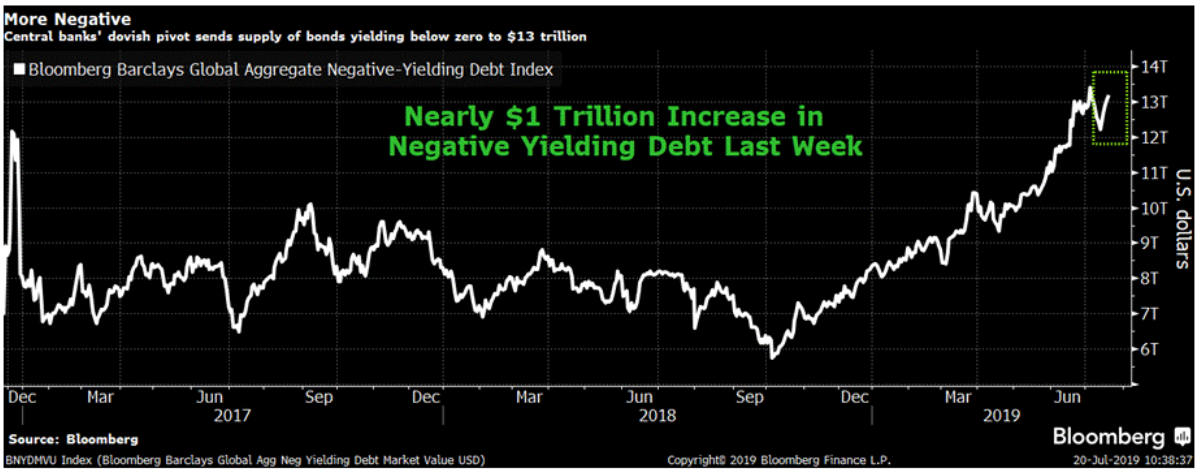
THE PRUDENT SPECULATOR
$13 Trillion in Negative Yielding Debt

Incredibly, money continues to pour into government bonds, with the latest surge (week ending 7.19.19) pushing yields on another $1 trillion below zero. Yes, we understand that the pros can utilize derivatives to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity, but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.



To be sure, we realize that part of the reason that so much money has poured into bonds is that many are worried about the health of the U.S. economy,…

Recession Forecasts: Contra Indicator?

"Economists See Rising Risk of Downturn," proclaimed *The Wall Street Journal* on Jan. 11, as the chance of recession rose to 25%. The tally was the highest since the fall of 2011…which proved to be a fantastic time to buy equities, as the S&P 500 returned 30.2% over the ensuing 12 months following the Sept. 2011, 35% *high-water* recession projection.

…even as some of the more recent economic stats have been very good,…

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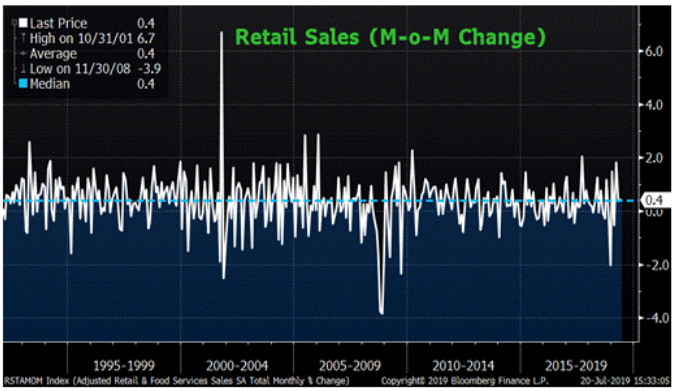
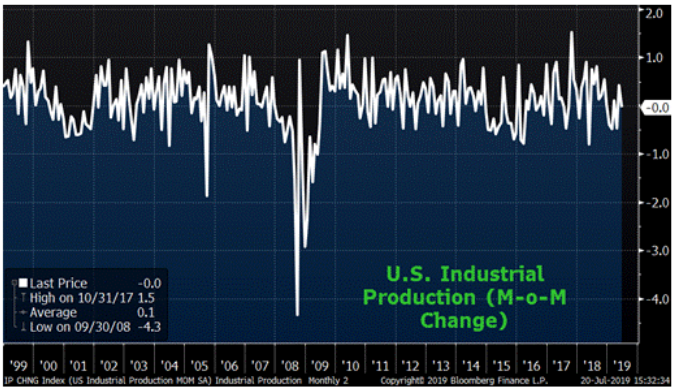
Healthy Retail Sales & Factory Activity





Uncle Sam said that retail sales for June came in much stronger-than-projected with a sizable gain of 0.4%. Sales of automobiles climbed a surprisingly robust 0.7%, while restaurant sales jumped a hefty 0.9%. Meanwhile, output at the nation's factories, mines and utilities was unchanged in June, though the manufacturing component bounded 0.4% higher. Weather led to a 3.6% decline in the utilities metric.

…while others were trending in the right direction,…

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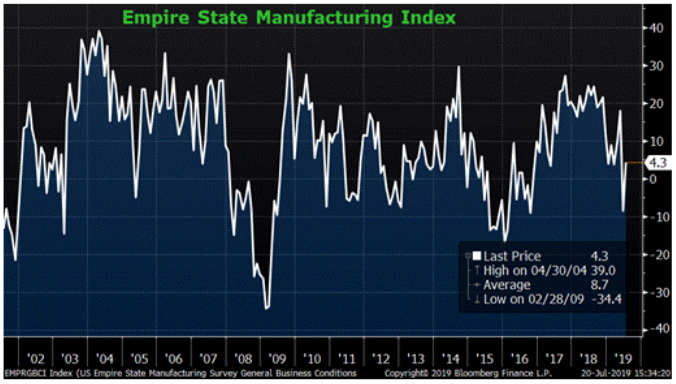
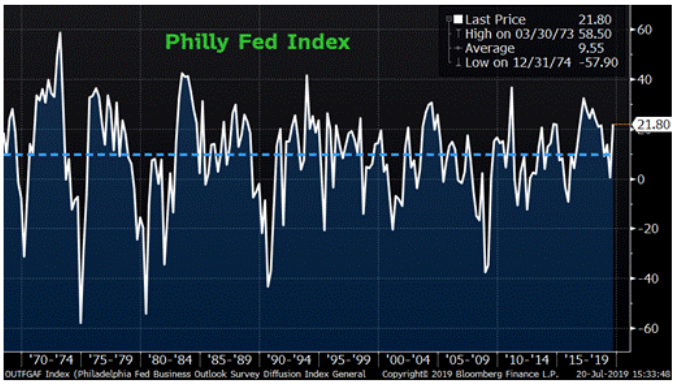
Improving Manufacturing Stats





Though the number was still below the historical average, the latest read on factory activity in the New York area came in better than expected at 4.3 for July, rebounding sharply from the -8.6 reading posted in June. It was an even better story for the Philadelphia Fed's July measure of manufacturing activity in the mid-Atlantic region, which blew away forecasts with a tally of 21.8, well above the historical norm.

…and even the weaker numbers were not bad, whether they were based on expectations for the future,…

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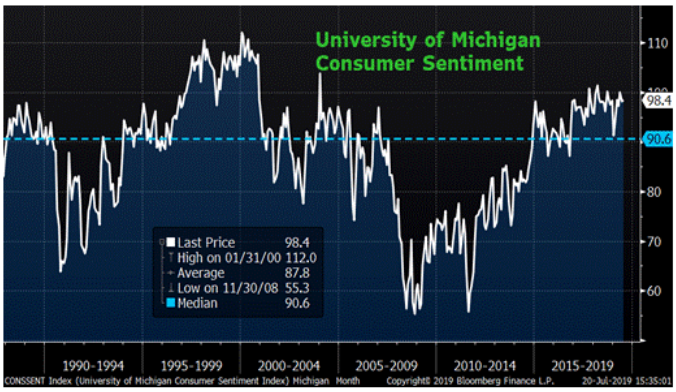
Modestly Disappointing Confidence Stats



Though the figure remained above average, the NFIB Small Business Optimism Index for June trailed estimates by falling to 103.3, with weakness among components like earnings, sales expectations, employment and capital investment plans. The optimism of the consumer also lagged forecasts as the preliminary Univ. of Michigan gauge of sentiment for July inched up to 98.4, a number that continues to reside not too far from multi-year highs.

…or actual data points.

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THE PRUDENT SPECULATOR
Solid Economic Numbers

Dipping slightly from May's reading, housing starts for June fell to 1.253 million, even as the single-family component rose 3.5% during the month, while permits skidded 6.2% to a 1.220 million annual run rate. Of course, the latest figures on first-time claims for jobless benefits saw 216,000 new filings, still near lows last seen back in December 1969 when the workforce was much smaller than it is today.

That said, GDP growth will most certainly slow from the relatively rich 3.1% level posted in Q1 2019,…

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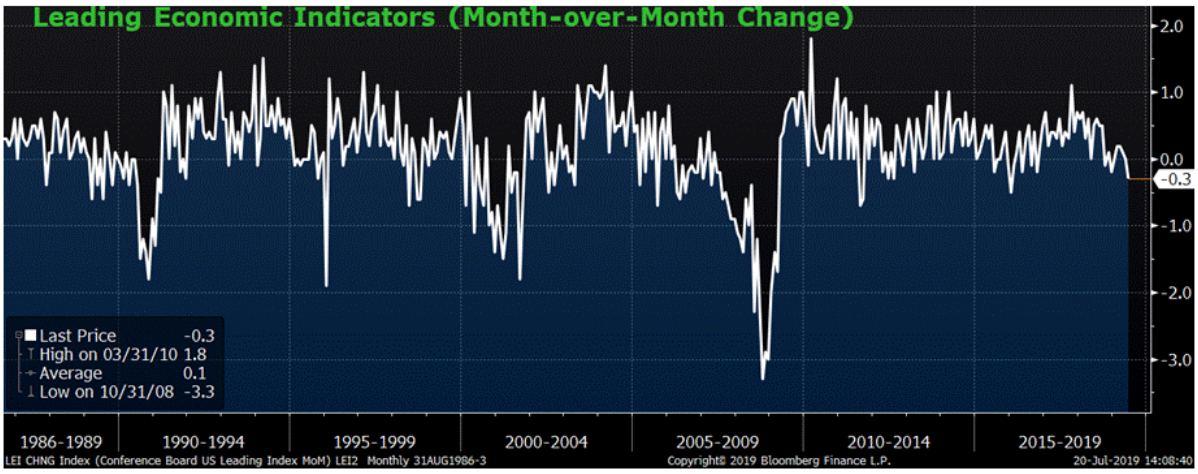
THE PRUDENT SPECULATOR
Lackluster Economic Growth Likely

The forward-looking index of Leading Economic Indicators fell to a -0.3% month-over-month drop in June, with the Conference Board stating, "The U.S. LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, and unemployment insurance claims…the LEI suggests growth is likely to remain slow in the second half of the year."



…with estimates for the balance of the year,…

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THE PRUDENT SPECULATOR
Slowing Growth Argues for Fed Rate Cuts

The John Kenneth Galbraith quotation, "The only function of economic forecasting is to make astrology look respectable," appears quite apt this year, as four months ago, projections for U.S. GDP growth were near zero, only to rebound one month later to a 2.8% annualized growth estimate, and then sink anew to a 1.6% guess today. Still, expectations for sub-par growth suggest the Fed has reason to lower interest rates.

…suggesting that it will not be a surprise should the Federal Reserve cut its target for the Fed Funds rate at the upcoming FOMC Meeting on July 30 and July 31, with the only question appearing to be whether the reduction will be 25 or 50 basis points.

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THE PRUDENT SPECULATOR
Fed Funds Rate Targets: Summer 2019

Over the past two weeks, futures players increased their bets on rate cuts, with the odds of a 75 basis-point or greater paring by year-end rising to 62.5% from 47.6%. Of course, such a drop to a range of 1.5% to 1.75% or lower is below any of the latest FOMC multi-year projections.

FOMC Participants' Fed Funds Rate Target Level
Number with each projection

Midpoint of Target Range	2019	2020	2021	Longer Run
3.375				
3.250				2
3.125		1	1	
3.000				2
2.875			1	
2.750				3
2.625	1	2	3	
2.500				8
2.375	8	5	5	1
2.250				
2.125	1	2	2	
2.000				
1.875	7	7	5	
1.750				

Source: Federal Reserve, June 19, 2019

Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.41
Overview | Future Implied Probability
Current Implied Probabilities — Add/Remove Rates
Dates: Meeting / Calculation — Calculated 07/19/2019 — Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	Fwd Rate
07/31/2019	0.0%	100.0%	0.0%	0.0%	0.0%	18.5%	81.5%	2.10
09/18/2019	0.0%	100.0%	0.0%	0.0%	13.6%	64.8%	21.6%	1.92
10/30/2019	0.0%	100.0%	0.0%	6.6%	38.4%	43.8%	11.1%	1.80
12/11/2019	0.0%	100.0%	2.6%	19.3%	40.6%	30.8%	6.7%	1.70
01/29/2020	0.0%	100.0%	7.6%	25.7%	37.6%	23.5%	4.7%	1.62
03/18/2020	0.0%	100.0%	12.1%	28.7%	34.2%	18.9%	3.5%	1.56
04/29/2020	0.0%	100.0%	14.6%	29.5%	31.8%	16.5%	3.0%	1.52
06/10/2020	0.0%	100.0%	17.8%	30.0%	28.5%	13.6%	2.3%	1.47
07/29/2020	0.0%	100.0%	19.5%	29.8%	26.5%	12.1%	2.0%	1.44

Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.41
Overview | Future Implied Probability
Current Implied Probabilities — Add/Remove Rates
Dates: Meeting / Calculation — Calculated 07/05/2019 — Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	Fwd Rate
07/31/2019	0.0%	100.0%	0.0%	0.0%	0.0%	1.5%	98.5%	2.13
09/18/2019	0.0%	100.0%	0.0%	0.0%	1.1%	74.3%	24.6%	1.94
10/30/2019	0.0%	100.0%	0.0%	0.3%	22.3%	59.9%	17.5%	1.87
12/11/2019	0.0%	100.0%	0.1%	9.5%	38.0%	42.1%	10.2%	1.77
01/29/2020	0.0%	100.0%	2.6%	17.0%	39.1%	33.8%	7.5%	1.70
03/18/2020	0.0%	100.0%	5.5%	21.5%	38.0%	28.4%	6.0%	1.65
04/29/2020	0.0%	100.0%	7.7%	23.7%	36.7%	25.4%	5.2%	1.62
06/10/2020	0.0%	100.0%	10.9%	26.3%	34.5%	21.3%	4.1%	1.57
07/29/2020	0.0%	100.0%	12.6%	27.2%	33.0%	19.4%	3.7%	1.54

Source: Bloomberg

Either way, we believe that the Fed will remain very friendly for the foreseeable future, which continues to provide plenty of support for equity prices in our view, given that low interest rates boost the attractiveness of dividend payments,…

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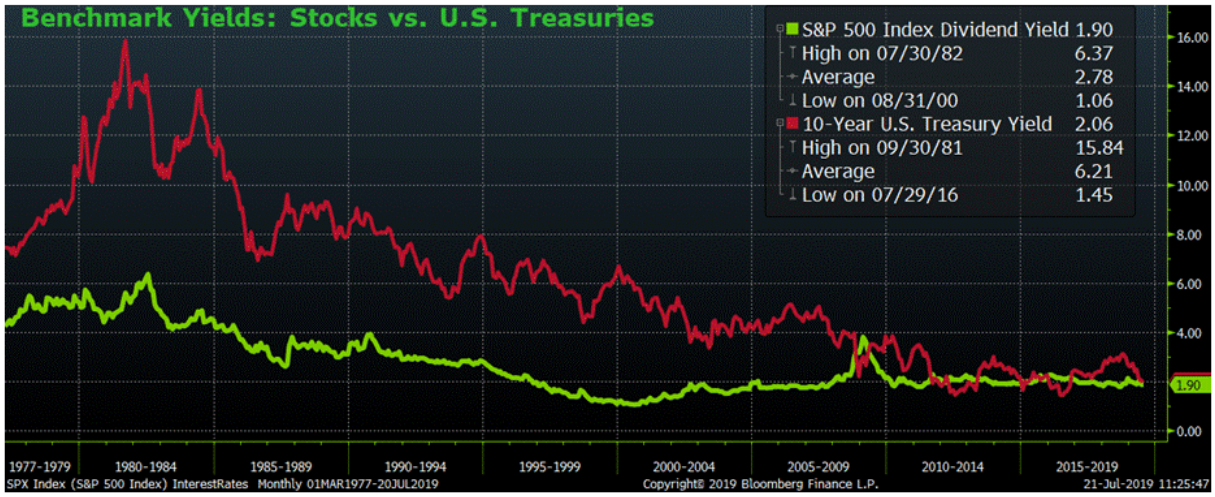
THE PRUDENT SPECULATOR
S&P 500 vs. 10-Year U.S. Treasury Yields

Though we respect that equities and fixed income are two different asset classes, the current payout on the S&P 500 (1.90%) is extremely generous relative to the present 2.06% 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.



…while the likelihood that long-term-oriented investors will be disappointed in stocks is very low.

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 10-year U.S. Treasury today, with its 2.06% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.06%	Count <=2.06%	Percent >2.06%
1 Month	683	419	62.0%
3 Months	727	373	66.1%
6 Months	759	338	69.2%
1 Year	779	312	71.4%
2 Year	872	207	80.8%
3 Year	915	152	85.8%
5 Year	907	136	87.0%
7 Year	964	55	94.6%
10 Year	945	38	96.1%
15 Year	915	8	99.1%
20 Year	863	0	100.0%

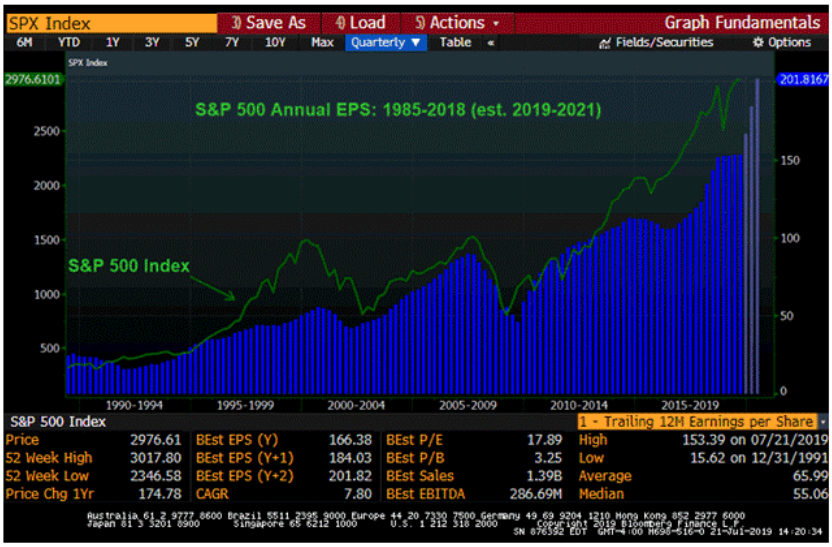
DIVIDEND PAYERS

	Count >2.06%	Count <=2.06%	Percent >2.06%
1 Month	679	423	61.6%
3 Months	725	375	65.9%
6 Months	766	331	69.8%
1 Year	793	298	72.7%
2 Year	887	192	82.2%
3 Year	878	189	82.3%
5 Year	915	128	87.7%
7 Year	946	73	92.8%
10 Year	929	54	94.5%
15 Year	900	23	97.5%
20 Year	863	0	100.0%

From 07.31.27 through 04.30.19. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

Aside from Jerome Powell & Co., geopolitical events, twists and turns regarding the trade skirmishes and proclamations from Washington will likely dictate near-term market movements, but we continue to believe that corporate profits will remain healthy enough to support rising stock prices,…

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		
Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$48.82	$183.04
9/30/2020	$47.22	$177.70
6/30/2020	$44.90	$172.54
3/31/2020	$42.10	$167.23
12/31/2019	$43.48	$163.12
9/30/2019	$42.06	$154.67
6/30/2019	$39.59	$153.99
ACTUAL		
3/31/2019	$37.99	$153.05
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 7.18.19

…and we note that of the 77 S&P 500 members to have announced Q2 results thus far, 61.0% have exceeded top-line estimates and 77.9% have topped bottom-line projections. The reporting season is still young, but those numbers compare favorably to last quarter's 56.5% of companies that beat revenue estimates and 76.8% that trumped profit forecasts.

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 and Jason Clark offer updates on a baker's dozen of our companies that had news last week that was of sufficient importance to trigger a review of their Target Price.

Diversified financial firm **Bank of America** (BAC – $29.40) reported another solid quarter of earnings as adjusted Q2 EPS came in at $0.74, versus consensus estimates of $0.71. Revenue was slightly above forecasts, totaling $23.2 billion. The quarter benefited from a 4% increase in average loan growth (with average consumer and small business loans rising 6%), continued positive operating leverage and strong asset quality, with credit charge-offs remaining low. BAC's efficiency ratio improved to 57%, from 59%.

CEO Brian Moynihan commented, “Our commitment to responsible growth resulted in the best quarter and first-half year of earnings in our company’s history. In the second quarter, we generated $7.3 billion in earnings and delivered $7.9 billion back to shareholders. Our return on assets was over 120 basis points and our return on equity was well above the firm’s cost of capital.”

He continued, “Our view of the economy reflects the activity by the one-in-two American households we serve, which points to a steadily growing economy. We see solid consumer activity across the board, with spending by Bank of America consumers up 5% this quarter over the second quarter of last year…Our customers gave us more of their assets to handle for them. That includes an increase of $75 billion in deposits, with $37 billion from consumers. And customers gave us more of their investment dollar, as we reached $2.9 trillion in balances. This quarter, we also regained the leading U.S. market share in lending to the important small business economy. These customers continue to engage in solid activity to build their businesses. We also see consistent borrowing and activity from our commercial and corporate clients, who are well positioned to take advantage of opportunities that arise as trade and other open issues are resolved. Importantly, we have seen improvement in our investment banking market share as we have repositioned that business.”

CFO Paul Donofrio added, “Diluted EPS grew seventeen percent from the year-ago quarter, aided in part by the repurchase of seven percent of our shares in the past twelve months as book value per share grew ten percent and capital and liquidity measures strengthened. We have recorded eighteen consecutive quarters of positive operating leverage while consistently making significant investments in the franchise. In the next twelve months, we plan to return $37 billion to shareholders through common dividends and share repurchases.”

Also, the company’s Board of Directors approved plans to return as much as $37 billion to common stockholders over the next four quarters through an increased dividend and stock repurchases. BAC plans to increase its quarterly common stock dividend by 20% (from $0.15 to $0.18), beginning in the third quarter of 2019, and it has been authorized to repurchase approximately $30.9 billion in common stock from July 1, 2019 through June 30, 2020.

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BAC – A Lot to Like

2Q19 Highlights
(Comparisons are to 2Q18)

Earnings

- Diluted earnings per share of $0.74, up 17%
- Record net income of $7.3B, up 8%
- Operating leverage of >200 bps
  - Total revenue up 2% to $23.1B
  - Noninterest expense stable at $13.3B
- Strong asset quality
- Average diluted common shares down 7% to 9.6B

Returns and Efficiency

- Return on average assets of 1.23% improved 6 bps
- Return on average common shareholders' equity of 11.62% increased 87 bps
- Return on average tangible common shareholders' equity of 16.24% improved 109 bps [1]
- Efficiency ratio of 57% improved 117 bps

Client Balances

- Average loans and leases in business segments grew 4%
  - Consumer and commercial each up 4%
- Average deposits increased $75B, or 6%
- GWIM total client balances of $2.9T, up 5%
  - Assets Under Management (AUM) of $1.2T included $24B of AUM flows since 2Q18
- Consumer investment assets of $220B increased 15% [2]
  - $24B of client flows since 2Q18

Capital and Liquidity

- $171B of Common Equity Tier 1 Capital (CET1) and CET1 ratio of 11.7% [3]
- $552B of average Global Liquidity Sources [4]
- Plan to return $37B of capital to common shareholders over next four quarters
  - 20% increase in quarterly dividend
  - More than $30B in gross share repurchases
- Book value per share increased 10% to $26.41

[1] Represents a non-GAAP financial measure. For important presentation information, see slide 28.
[2] Consumer investment assets include client brokerage assets, certain deposit sweep balances and assets under management in Consumer Banking.
[3] Regulatory capital ratios at June 30, 2019 are preliminary. The Company reports regulatory capital ratios under both the Standardized and Advanced approaches. The approach that yields the lower ratio is used to assess capital adequacy, which for CET1 is the Standardized approach for 2Q19.
[4] See note A on slide 25 for definition of Global Liquidity Sources.

3

We continue to be fans of BAC and see it as one of our core financial holdings, though the dividend yield is presently only 2.0% (but at the current price will increase to 2.4% when the new dividend rate is in place). We see numerous long-term opportunities upon which BAC can capitalize, from its large deposit base and consumer lending franchise to its "thundering herd" of Merrill Lynch's financial advisors and wealth managers. Credit quality remains solid and the stock is trading for just 9.9 times NTM estimated EPS. Our Target Price has been inched up to $42.

While in April we wrote that we were kicking ourselves for not selling any of our **Abbott Labs** (ABT – $87.49) when the stock jumped above $80 in March, we were pleased this past week that we did not sell all our shares when we trimmed some of our ABT in June. The stock jumped 4.4% last week after the medical device maker reported better-than- expected Q2 financial results and gave a solid outlook. For the quarter, Abbott announced adjusted EPS of $0.82, versus forecasts looking of $0.80. Revenue was generally in line with expectations at $7.98 billion.

Robust growth in the period was fueled by innovation in structural heart, diabetes, electrophysiology and heart failure, which overcame softness in the established pharmaceuticals, nutritionals, vascular and cardiac rhythm management product lines to deliver 7.5% organic quarterly top-line growth. Abbott's FreeStyle Libre, a continuous glucose monitoring system,

achieved worldwide sales of $433 million in the quarter, an increase of 63.9% on a reported basis and 72.9% on an organic basis versus the prior year.

“Our sales growth accelerated and is sustainable,” proclaimed ABT CEO Miles D. White. “We have great momentum and are raising our guidance above the strong outlook we previously set for the year.” Abbott projects 2019 organic sales growth of 7% to 8%, and adjusted EPS for the full year 2019 to come in between $3.21 and $3.27. For Q3, management expects adjusted EPS to be between $0.83 to $0.85.

We believe that Abbott should be able to continue to enhance its free cash flow generation, which can be used to improve the balance sheet, return capital to shareholders and invest in the business. All the positives mentioned, we continue to keep a close eye on ABT shares as the valuation isn’t exactly cheap, given a forward P/E of about 25. For the time being, our Target Price stands at $92.

Investment banking and brokerage firm **Goldman Sachs Group** (GS – $213.52) posted Q2 adjusted earnings per share that exceeded consensus analyst estimates by more than 17% ($5.71 versus $4.93). Revenue for the period also easily outpaced forecasts ($9.46 billion vs. $8.89 billion). Not surprisingly, then, we saw Q2 results as quite solid with annualized return on tangible equity coming in at 11.7%. Goldman ranked #1 globally in year-to-date completed mergers and acquisitions and in equity and equity-related offerings and common stock offerings. Investing & Lending net revenue was $2.53 billion, the highest quarterly performance in eight years, and included record quarterly net interest income in debt securities and loans of $872 million. Assets under supervision rose to a record $1.66 trillion.

GS – Terrific Q2

Results Snapshot

Net Revenues	
2Q	$9.46 billion
2Q YTD	$18.27 billion

Net Earnings	
2Q	$2.42 billion
2Q YTD	$4.67 billion

EPS	
2Q	$5.81
2Q YTD	$11.52

Annualized ROE[1]	
2Q	11.1%
2Q YTD	11.1%

Annualized ROTE[1]	
2Q	11.7%
2Q YTD	11.7%

2Q19 Book Value	
BVPS	$214.10
TBVPS[1]	$203.05

Highlights

- #1 in Announced and Completed M&A[2]
- Highest I&L quarterly performance in 8 years; Record NII in Debt I&L
- #1 in Equity and equity-related offerings[2]
- Record AUS[3,4]
- 2nd highest Equities quarterly performance in 4 years
- CCAR 2019 capital plan of up to $8.8 billion of capital return including a 47% dividend increase[3,5]

CEO Dave Solomon remarked, "We're encouraged by the results for the first half of the year as we continue to invest in new businesses and growth to serve a broader array of clients. Given the strength of our client franchise, we are well positioned to benefit from a growing global economy. And, our financial strength positions us to return capital to shareholders, including a significant increase in our quarterly dividend in the third quarter."

As mentioned by Mr. Solomon, the firm received a non-objection from the Federal Reserve Board related to its CCAR 2019 capital plan, which includes up to $7.00 billion in common share repurchases and $1.80 billion in total common stock dividends, with a 47% increase in the quarterly dividend to $1.25, effective with the September distribution.

We continue to be long-term fans of GS and are constructive on the name given the prospects for stronger revenue growth, operating leverage and a potential higher multiple than the current forward P/E of 8.8. We like the strategic changes that Goldman is undertaking, including going after consumer deposits, launching a joint credit card with Apple, building out its wealth-management capabilities and opening up the firm's private-investing funds to outside money. The ultimate goal is to evolve the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. That said, we won't be surprised if it takes a few years for the efforts to begin to be truly rewarded by investors. Management continues to work to expand revenue in newer, less capital-intensive business lines,

while optimizing expenses and capital in its traditional business lines. We believe the company's digital banking platform and expanding emphasis on wealth and asset management should increase long-term returns and drive some underlying stability. Our Target Price has been increased to $289.

Computing giant **Microsoft** (MSFT – $136.62) earned $1.37 per share in fiscal Q4 2019 (vs. $1.22 est.). MSFT had sales of $33.7 billion (vs. $32.8 billion est.). Shares inched slightly higher on Friday following the announcement, though they were substantially higher earlier in the day.

Microsoft CEO Satya Nadella said, "We delivered more than $125 billion in revenue for the full year with double-digit top line and bottom line growth. Our commercial cloud business is the largest in the world, surpassing $38 billion in revenue for the year with gross margin expanding to 63%. I'm proud of what we've accomplished over the last 12 months and I'm energized by the tremendous opportunity ahead. Every day, we work alongside our customers to help them build their own digital capability, creating new businesses with them, innovating with them and earning their trust. This commitment to our customers' success is resulting in deeper partnerships, larger multi-year cloud agreements and growing momentum across every layer of our differentiated technology stack from application infrastructure to data and AI to business process to productivity and collaboration."

Mr. Nadella continued, "I'm optimistic of what's ahead. We are accelerating our innovation to deliver differentiated value to customers across the cloud and the edge from GitHub to Azure to Dynamics 365 to Microsoft 365 as well as Xbox Game Pass. We're investing in the right secular trends to expand our opportunity, and we are working to earn our customers' trust every day."

CFO Amy Hood added, "In our largest quarter of the year, our sales teams and partners delivered exceptional commercial results, which drove another quarter of double-digit top and bottom line growth. From a geographic perspective, we saw broad-based strength across markets of all sizes. Customer commitment to our cloud platform continues to grow. In FY '19, we closed a record number of multi-million-dollar commercial cloud agreements with material growth in the number of $10 million-plus Azure agreements. Commercial bookings growth was significantly ahead of expectations, increasing 22% and 25% in constant currency, driven by strong renewal execution and an increase in the number of larger long-term Azure contracts. As a result, our contracted-not-recognized revenue was $91 billion, up 25% year-over-year, reflecting our continued momentum and growing long-term customer commitment."

MSFT returned $7.7 billion to shareholders via dividends and share repurchases in Q4. Shares have gained more than 34% this year, but we believe there are still a host of reasons to think that the music at the Cloud party is unlikely to stop for the foreseeable future. Estimates for the global cloud market have been reported to be north of a trillion dollars, which we are far from hitting. We remain complimentary of Mr. Nadella's transformation of MSFT. He has revamped the company top to bottom during his tenure, taking it from an Office- and Windows-centric firm to a software firm with significant recurring subscription revenue, a strong Cloud product and complementary products like LinkedIn.

In addition, we think MSFT's valuation is still not excessive, as the stock sports a 3.6% free cash flow yield and a 1.3% dividend yield. We also note that MSFT's weight in the S&P 500 is 4.2%, while it is 3.5% in the Russell 3000. Analysts expect the company's EPS growth rate to be at least 9% for each of the next three fiscal years, with earnings growing from $3.88 in 2018 to an estimated $6.73 in fiscal 2022, and MSFT still scores well in our quantitative framework. Our Target Price for MSFT has been boosted again, this time to $150.

Global provider of computer solutions and advanced technologies leader **Int'l Business Machines** (IBM – $149.68) reported earnings per share of $3.17, versus the $3.08 estimate, in fiscal Q2 2019. IBM had sales of $19.2 billion, versus the $19.1 billion estimate. Since the release, shares moved up more than 5% on a growing operating margin and enthusiasm that the now-closed Red Hat acquisition would boost the struggling computer company. Interesting, IBM Cloud growth for Q2 was just 5% and the stock shot up, while Microsoft Cloud growth was 41% and shares barely reacted, no doubt a reaction to the fact that IBM has been trading at extraordinarily low valuation metrics, while Redmond's finest has enjoyed significant investor interest. IBM still expects 2019 operating EPS of at least $13.90 and free cash flow of about $12 billion (excluding Red Hat).

CEO Ginny Rometty was again absent from the analyst call. CFO James Kavanaugh stated, "We completed the acquisition of Red Hat. This acquisition is an important milestone for IBM and one that will significantly impact the cloud landscape. It is clear that the next chapter of cloud will be about shifting mission-critical work to the cloud and optimizing everything from supply chains to core banking systems. This requires a hybrid multi-cloud open approach to provide portability, management consistency and security for these enterprise workloads. We've been building hybrid cloud capabilities across our business to address this opportunity and to prepare for this moment, bringing to market innovations like IBM Cloud, IBM Cloud Private, the Cloud Migration Factory, cloud application innovation, IBM Garages, IBM Multicloud Manager and cloud optimized systems with tens of thousands of cloud architects. These innovations helped to drive IBM's $19.5 billion of cloud revenue over the last 12 months, which is up 8%, led by mid-teens growth in our as-a-service capabilities, all at constant currency. This is why leading enterprises across industries that range from banking to transportation to telecom are using IBM's hybrid cloud capabilities to improve the management and delivery of their data."

On the topic of the company's financial health, Mr. Kavanaugh added, "So far this year, we returned over $4 billion to our shareholders. $2.8 billion of that was dividends. And in April, we again raised our dividend. That's now the 24th consecutive year we've taken our dividend up. Through the first half, we spent $1.2 billion on gross share repurchases, buying back more than 9 million shares. With the closing of the Red Hat transaction, we suspended our share repurchase program on July 9. We ended the quarter with $46 billion in cash. Approximately $34 billion of that was used to close the Red Hat transaction earlier this month. Our total debt was $73 billion, including incremental debt raised to fund the Red Hat acquisition. We continue to generate strong free cash flow and together with the portfolio actions we've taken and the suspension of share repurchases positions us to return to our targeted leverage ratios within a couple of years. In the meantime, our balance sheet is strong with the flexibility to support our business."

Overview

3

2Q19	$19.2B	$3.17	$12.7B
	Revenue	Operating (non-GAAP) EPS	Free Cash Flow Last 12 Months

- Revenue growth in key high-value areas
  - Led by Cloud & Cognitive Software and Global Business Services
- Strong margin performance with gross margin expansion of 100 basis points
  - Continued actions to optimize portfolio
- Positioned to lead in the next chapter of cloud
  - Cloud revenue of $19.5 billion over the last 12 months
- Through 2nd quarter, on track to achieve full-year expectations for earnings per share and free cash flow, excluding impact of Red Hat
  - Update expectations in early August to reflect Red Hat acquisition

IBM

It was a relief to see IBM turn in a decent quarter, after years of giving up ground to the competition, and there would appear to be plenty of room for Big Blue and Red Hat to capture more of the overall cloud pie. Toward that end, it was great to see **AT&T** (T – $32.79) CEO Randolph Stephenson announce a multi-year cloud deal for IBM to manage AT&T's hybrid cloud infrastructure. Despite a 31% rebound so far in 2019, IBM trades for just 10.7 times earnings and yields 4.3%. Our Target Price has been nudged up to $186.

Consumer finance firm **Capital One Financial** (COF – $90.65) earned $3.37 per share in fiscal Q2 2019 (vs. $2.88 est.). COF had sales of $7.1 billion, versus the $7.0 billion estimate. COF had a net interest margin of 6.80% (vs. $6.74% est.), credit card charge-offs of 4.76% (vs. 4.67% a year ago) and credit card delinquencies of 3.15% (vs. 2.88% a year ago). Shares climbed 2.1% following the announcement.

CEO Richard D. Fairbank commented, "We are operating today with one foot in the legacy data center environment and one foot in the cloud as we continue to complete our cloud journey. As we migrate an increasing percentage of our applications and data to the cloud, we have all those costs. And at the same time, until we fully exit our data centers, we also bear the significant legacy costs as well. We expect to achieve modest improvements in full year operating efficiency ratio net of adjustments in both 2019 and 2020. We continue to expect full year operating efficiency ratio net of adjustments to improve to 42% in 2021, powered by the exit of

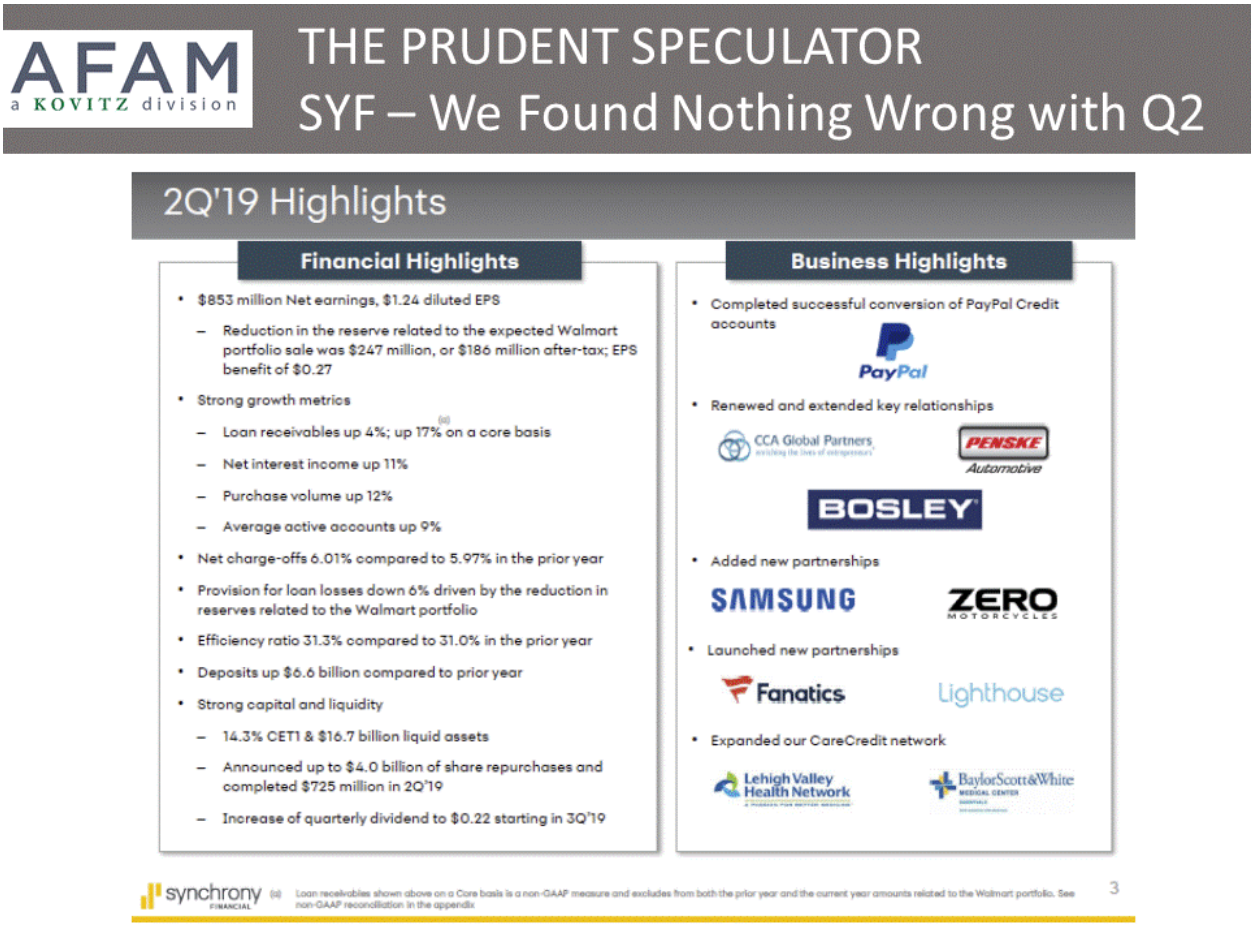
our data centers, continuing technology innovation and Walmart. And we expect this operating efficiency improvement to drive significant improvement in total efficiency ratio by 2021 as well."

While COF shares have had a nice run thus far in 2019 (up 21% including dividends), we continue to remain long-term focused and we think there is still plenty of upside as the company focuses on managing risks, while improving efficiency, even as it invests to grow and transform itself as banking goes digital. COF trades for 8.0 times estimated earnings and offers a 1.8% dividend yield. Our Target Price has been raised to $125.

Consumer financial firm **Synchrony Financial** (SYF – $35.05) earned $0.97 per share in fiscal Q2 2019 (vs. $0.95 est.). SYF had total revenue of $3.4 billion, matching the consensus estimate. Shares tumbled nearly 3% following the announcement, as investors evidently were concerned by weaker-than-expected net interest income of $4.2 billion (vs. $4.38 billion consensus estimate). Of course, thanks in large part to the company's PayPal relationship, there was a $418 million year-over-year increase in net interest income.

CEO Margaret Keane commented, "In Retail Card, strong results were driven by our PayPal Credit program acquisition, which was largely offset by the reclassification of the Walmart portfolio. Loans were up 2%. But excluding the Walmart portfolio, they were up 23%. Interest and fees on loans increased 16% over last year and purchase volume grew 14%. Average active accounts were up 11%. We are happy to have completed the conversion of the PayPal portfolio. This is a key relationship in the rapidly growing digital payment space and has expanded our capabilities within the merchant environment. And through this partnership, we are providing an enhanced customer experience for thousands of merchants and consumers. We are very excited about the continued opportunities with this valued partner. We have worked hard to renew our relationships in the Retail Card space and have had great success in doing so. Currently, 97% of Retail Card ongoing partner interest and fees on loans are under contract until 2022 and beyond."

CFO Brian Wenzel added, "We believe the net interest margin will continue to run the 15.75% to 16% range for the year with a normal seasonality as well as some potential fluctuation around the Walmart portfolio sale later this year. RSAs as a percentage of average receivables was 3.9% for the quarter, in line with our expectations. We continue to expect the RSA percent to be in the 4.0% to 4.2% range for 2019. We expect the core reserve build for the third quarter to be largely driven by growth and a normal seasonality we see in the third quarter and will be in the $175 million range. We now expect the sale of the Walmart portfolio to be completed in October. We still expect net charge-offs for 2019 will be in the 5.7% to 5.9% range with a slight increase over 2018 entirely driven by the impacts from the PayPal Credit portfolio, partially offset by the sale of the Walmart portfolio later this year. Excluding the effects of PayPal and Walmart, net charge-off rate is expected to be similar to 2018."



SYF shares trade at just 8.0 times NTM adjusted EPS consensus estimates and yield 2.4%. SYF continues to execute and we believe that the 49% rise this year is reflective of that. Although the SYF gains this year have been sizable, we think there's still room to run. Our Target Price has been lifted to $52.

Oilfield services firm **Schlumberger Ltd** (SLB – $38.71) earned $0.35 per share in fiscal Q2 2019 (vs. $0.35 est.). SLB had revenue of $8.3 billion, versus the $8.1 billion estimate. Shares gyrated wildly in trading following the Friday morning announcement, rising as high as $39.34 and sinking as low as $37.24, before ending the day down seven cents. The company said that its international business grew 8% and showed continued signs of a broad upturn in E&P investment and activity, explaining that international rig counts increased 6% sequentially and 5% year-over-year. On the other hand, North America land revenue grew 1% sequentially while North America offshore revenue increased 10%.

CFO Olivier Le Peuch offered a macro view, "North America land remains a challenging environment. Indeed, the E&P operator focus on cash flow has capped activity, and continued efficiency improvements have also reduced the number of active rigs and frac fleets, so far without major impact on oil production. In response, we continue our returns-focused approach, deploying new technology and working closely with the major independents and IOCs that are initializing the development of unconventional shale resource at increasing scale. Our

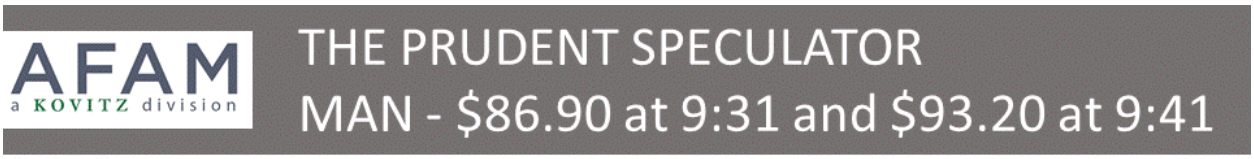
competitive advantage in North America land operation continues to build on our differentiation in technology and efficiency. In the international markets, we continue to witness broad-based activity growth. More than half of the international GeoMarket posted high single-digit revenue growth or better year-over-year. This was mainly driven by rig activity, but our performance was also enhanced by key GeoMarket activity exceeding normal seasonal rebounds. The improving exploration trends of last quarter also continued. Wireline offshore exploration revenue grew by 1/3 during the first half of the year with a sizable increase in new technology sales. As offshore momentum builds, shallow-water rig activity grew by 14% in the first half, and deepwater activity is strengthening as new projects are sanctioned."

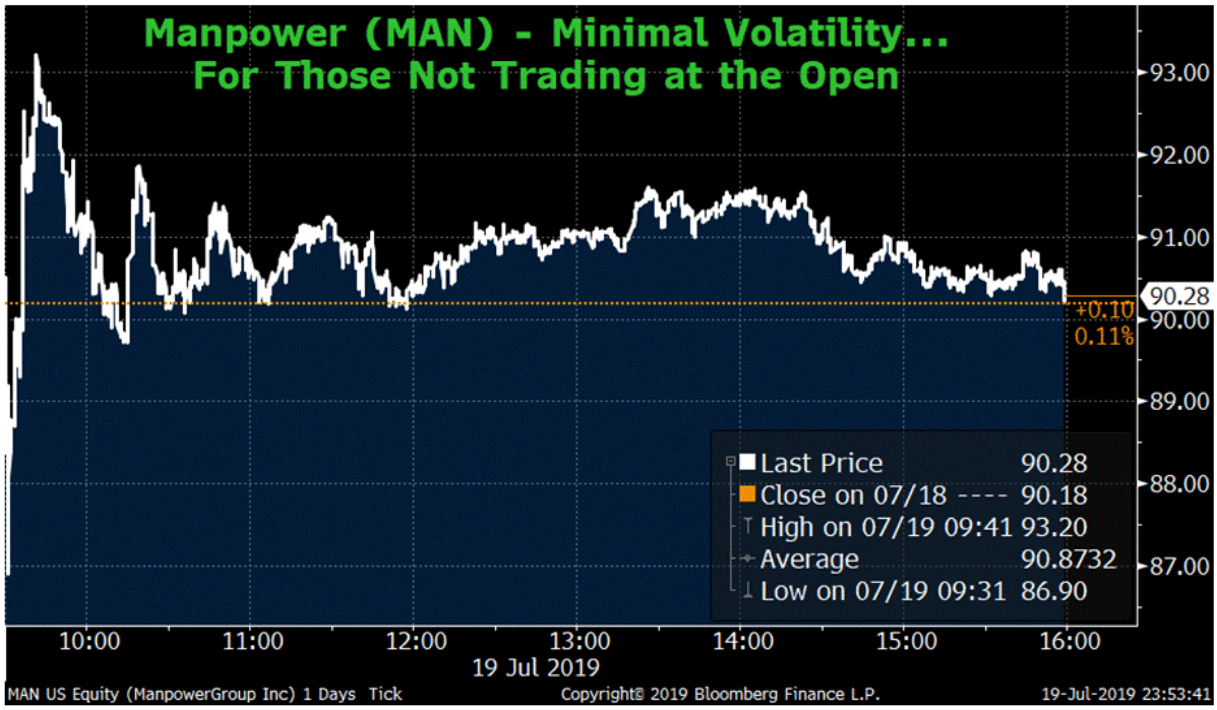
CEO Paal Kibsgaard added, "On the demand side, the 2019 agency forecasts have been reduced slightly on global trade fears and current geopolitical tensions, but we do not anticipate any change to the structural demand outlook for the midterm. On the supply side, we continued to see U.S. shale oil as the only near- to medium-term source of global production growth. However, the consolidation among North American E&P companies is further strengthening the shift away from growth focus towards financial discipline while, at the same time, driving increased focus on HSE, technology adaptation, more collaborative business models, and it will also potentially dampen the large variations in investment levels throughout the cycle. These effects, combined with the recent decision by OPEC and Russia to extend production cuts through the first quarter of 2020 are likely to keep oil prices range-bound around present levels. Although the markets are well supplied from projects sanctioned and partly funded prior to 2015, this source-of-supply additions will start to fade in 2020, thereby, further exposing the accelerating decline rates from the mature production basins around the world."

Mr. Kibsgaard announced a major change at SLB, "We transition to a new Chairman and new CEO of Schlumberger. Earlier today, we announced the appointment of Mark Papa as our new Chairman and Olivier Le Peuch as our new CEO. I've spent the past decade as COO, CEO and more recently as Chairman of Schlumberger. And while it has not necessarily been the friendliest of decades in terms of the business environment, it has been a fantastic journey and a great honor to be trusted with the responsibility to lead this amazing company, which is made up of the best people in our industry. I would like to thank the entire investment community for the enjoyable and constructive working relationship we have had over the past decade. I would also like to thank my management team, you are all amazing; and also the Board of Directors; our entire organization; our customers and our partners for their support. I would in many ways miss being part of all of this, but it's now time to move on to the next chapter."

SLB expects capital expenditures for the full year to come in between $1.5 billion and $1.7 billion, with sufficient cash flows to cover all business needs without needing to tap the debt markets. We think its global income diversification is a positive and believe Schlumberger is the clear technology leader with an important reputation for consistent execution. We are fond of the firm's ability to generate solid free cash flow and the handsome 5.2% dividend yield the shares currently offer. We expect the new management team to be positive, with Mr. Papa's wealth of experience in shale extraction and Mr. Le Peuch 32-years at the firm. That said, we know that the stock has long been a disappointment, even as we continue to like the long-term prospects. Still, we have slashed our Target Price to $78.

Staffing solutions group **ManpowerGroup** (MAN – $90.21) posted earnings per share of $2.06, versus the $2.00 estimate, in fiscal Q2 2019. MAN had total revenue of $5.4 billion, versus the $5.4 billion estimate. Following the release on Friday morning, trading was about as volatile as can be, before the stock ended the day about where it began, as the market evidently didn't know what to make of the company's outlook for Q3 EPS in the $1.88 to $1.96 range, which includes a $0.04 currency headwind and negative $0.05 impact from a French tax policy change.





MAN CEO Jonas Prising said, "Operating profit for the quarter was $131 million, down 33% in constant currency. Our results included special items recorded in the quarter, consisting of a noncash accounting gain related to our acquisition of the remaining interest in our Manpower Switzerland business and goodwill impairment charges. Our businesses did not experience significant revenue trend changes in the second quarter from the previous quarter. This environment continued to be one of sluggish trends in Europe and modest constant currency growth elsewhere. At the same time, labor markets continued to be tight, and we believe that there continues to be good opportunities for growth in many markets. The continued stability of the global labor markets was also confirmed by our Q3 ManpowerGroup Employment Outlook Survey, the MEOS, which showed favorable but uneven hiring intent in 43 of 44 countries surveyed. And although overall hiring intentions are good, the outlook is mixed, and we're seeing significant variation across global labor markets. Quarter-over-quarter hiring intentions

are strengthening in 18 countries and weakening in another 18 countries according to our MEOS survey."

CFO John McGinnis explained, "Our gross margin came in at 16.2%. The staffing/interim margin continues to reflect an improving trend from previous quarters. The staffing margin also benefited about 10 basis points from favorable direct cost adjustments in France during the quarter. Many of our largest markets continue to see tight labor market conditions and this has contributed to improved staffing margins based on our ongoing initiatives, particularly in France, the U.S. and Japan. Lower contribution from Solutions was driven by lower Talent Based Outsourcing activity year-over-year."

Mr. Prising added, "During the last few quarters, you have seen us execute on very strategic initiatives, which include the Swiss franchise activity, the IPO over the Greater China business as well as certain dispositions of non-core operations in different countries. We are making these portfolio adjustments in line with our strategic priorities to drive sustainable profitable growth and achieve our stated financial targets. Along with our investments in technology and our innovation initiatives, we will continue to evolve our global portfolio and footprint over time as we execute our business strategies and focus on creating more value for all of our stakeholders. Turning back to the immediate outlook, although we see some slight changes in certain markets, we expect the overall theme of trend consistency from the first half of the year to continue into the third quarter. We are expecting European trend to continue to be largely offset by organic constant currency revenue increases in the Americas and in APME. In this uneven global environment, demand for extensive portfolio workforce solutions and services across our global footprint continues to provide us with opportunities for profitable growth in many markets and brands. Specifically, employers around the world are increasingly looking for technical and soft skills and are struggling to fill temporary and permanent positions. Across all industries, there's an increasing focus on the need to upskill people in short cycles at speed and at scale to ensure businesses have the talent they need when they need it."

We continue to like MAN's broad geographic footprint, wide range of offerings, good expense management and solid balance sheet. The employment market has varied in strength by region, but we think that MAN has been able to weather these differences well. Shares are up more than 40% this year, and we think they have more upside, especially given the absolutely awful 47% plunge suffered in 2018. While not as discounted as they used to be, the shares still are a compelling value with metrics including a 11.5 times forward P/E ratio and a 9.4% free cash flow yield. Our Target Price now stands at $136.

Banking giant **JPMorgan Chase** (JPM – $113.54) posted Q2 earnings per share of $2.59, versus the $2.50 estimate, as revenue tallied $29.57 billion (vs. $28.88 billion est.). The company's Tier 1 ratio was 12.1%, while the return on equity was 16%. Shares spiked temporarily on the news, but ended the week lower than were they began.

CEO Jamie Dimon said, "We had a strong second quarter and first half of 2019, benefitting from our diversified global business model. We continue to see positive momentum with the U.S. consumer – healthy confidence levels, solid job creation and rising wages – which are reflected in our Consumer & Community Banking results. Double-digit growth in credit card sales and

merchant processing volumes reflected healthy consumer spending and drove 8% growth in credit card loans, while mortgage and auto originations showed solid improvement, and we continued to attract new deposits, up 3%. Client investment assets were up 16%, driven by both physical and digital channels, including You Invest."

Mr. Dimon added, "In the Corporate & Investment Bank, Markets performance was relatively steady on slightly lower client volume, probably due to slightly higher global macroeconomic and geopolitical uncertainties. Treasury Services and Securities Services demonstrated good organic growth despite headwinds from rates. Although the global wallet was down, year-to-date the Firm ranked #1 in Global IB fees and gained share across products and regions, with particular strength from Commercial Banking, where gross IB revenue was up 8% for the first half of the year. And in Asset & Wealth Management, AUM and client assets grew 7%, both due to higher asset values and net inflows into long-term and liquidity products."

He concluded, "We were pleased to announce a meaningful increase to our dividend and repurchases. While we always prefer to invest capital back into the business, our capital plan provides us with the capacity and flexibility to return excess capital to our shareholders. We have opened new branches, announced strategic acquisitions like InstaMed, and invested in digital products to deepen our engagement with our customers, who have now opened over 2 million accounts digitally and activated over 60 million Chase Offers. We also continued our investments in local communities – for example, we expanded our long-term commitment to Detroit from $150 million to $200 million as we continue to learn how to drive inclusive growth in the communities around the world that need the most support."

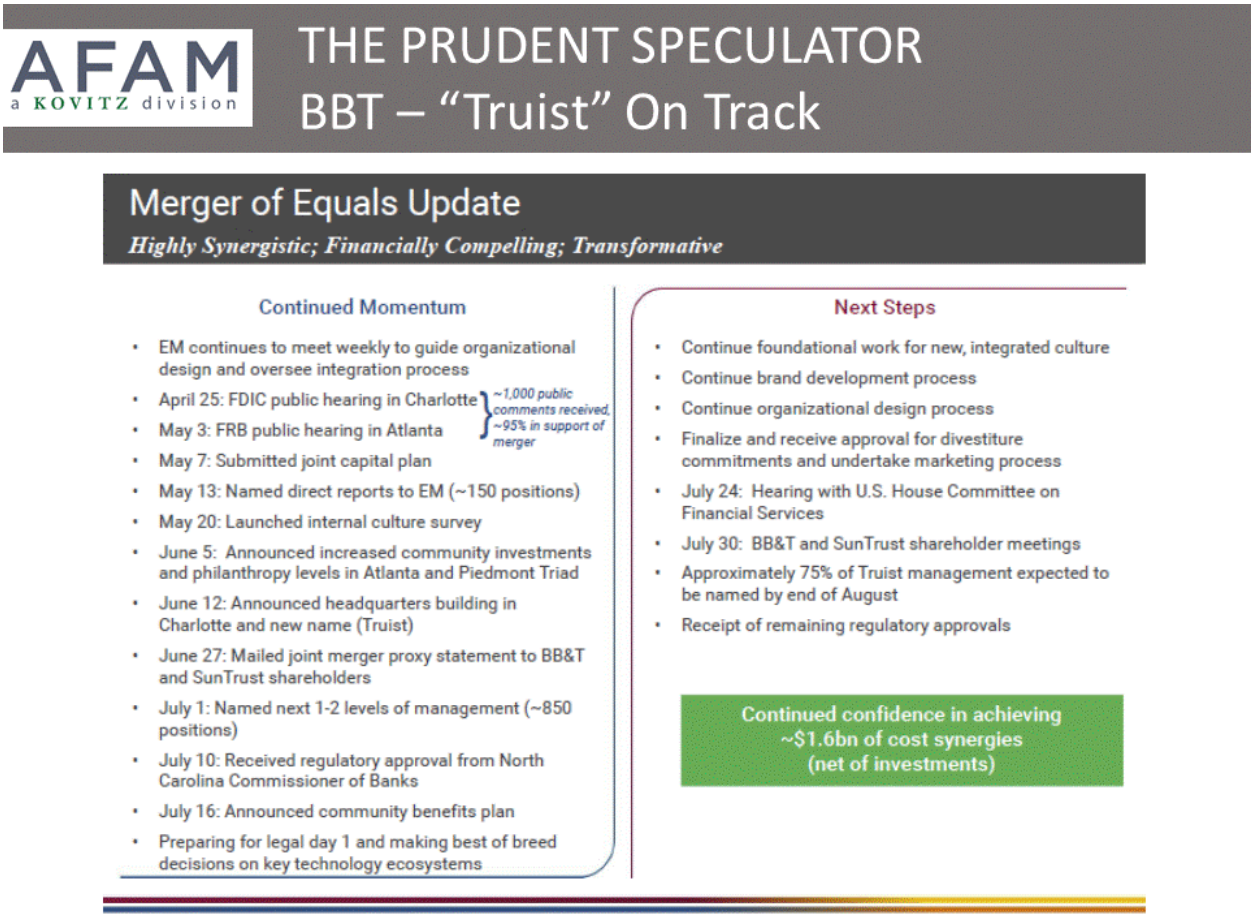
We think that JPM continues to execute well, while we remain quite fond of the fortress balance sheet. JPM shares are currently trading for just 11.2 times NTM projections, while carrying a dividend yield of 2.8%. With the continued progress and momentum, we believe that the financial behemoth is well-positioned for the next few years. Our Target Price for JPM has been elevated to $139.

Shares of regional banking powerhouse **BB&T Corp.** (BBT – $50.65) inched up last week following the company's Q2 results that included both a top- and bottom-line beat of consensus analyst expectations. BBT reported adjusted EPS of $1.12, versus forecasts of $1.08. Revenue for the period came in at $3.07 billion, slightly above expectations of $3.0 billion. Strong fee income growth and well-controlled expenses offset a lower net interest margin and higher credit costs.

"We are very pleased to report strong overall results for the second quarter, with record earnings of $842 million," said BBT CEO Kelly S. King. "These results were driven by strong loan growth, improved revenues led by record insurance income and a strong performance in investment banking and brokerage fees and commissions, as well as continued healthy asset quality."

"This has been an exciting quarter as we made significant progress building our new company, Truist, with our SunTrust partners," added Mr. King. "One day Truist will be a name that reflects the rich heritage of both companies and is synonymous with our goal to provide a better future

for our clients, communities and associates, which will drive strong performance for our shareholders."



We continue to like the company's relatively conservative loan underwriting and believe modest loan growth, relatively lower rate sensitivity and fee income growth on increased capital markets activity will bolster near-term results. We also believe that the union with **SunTrust** (STI – $65.38) is a long-term positive, for both companies. BBT yields 3.2% and trades at 11.9 times NTM EPS forecasts. Our Target Price for BBT has been boosted to $69.

Comerica (CMA – $70.67) saw its shares drop around 3% last week, following a weaker-than-expected Q2 earnings release. The financial services company reported top- and bottom-line results that came in short of consensus analyst estimates. Adjusted EPS for the quarter was $1.94, versus expectations of $2.00. Revenue of $853 million came in slightly below forecasts of $859 million. CMA continues to see its funding costs under pressure as lower rates, and the prospects for lower rates for longer, take a toll. While the cost of deposits could go down, management may have a tough time lowering deposit rates without jeopardizing client relationships because of the repricing. The quarter also saw the bank add $44 million in provisions tied to five loans in the somewhat volatile oil & gas sector and up its previous provision guidance. That said, expense controls, loan growth and capital return remained robust for Comerica.

CMA CEO Curtis C. Farmer explained, “Over the past few years, we have been on a path of transformation. We have increased capacity, become more efficient and managed our capital, while maintaining our underwriting and pricing discipline. These actions have produced strong results, including solid, broad-based loan growth, an efficiency ratio below 50%, return on assets of 1.7% and return on equity of 16%. These performance metrics should continue to be among the highest of our peers. Also, the work we have done has better positioned us to weather changes in the economic or interest rate environment.”

“Credit quality remained solid with net charge-offs of 26 basis points, and nonperforming assets remained very low at 45 basis points. Recently, valuations of select problem energy assets in various stages of liquidation were reduced due to volatile oil and gas prices combined with a slowing of capital investment in this sector. This, along with loan growth, drove the increase in provision from the low levels we have been experiencing. Overall, the portfolio continues to perform well, and we expect the provision will be approximately $25 million to $35 million per quarter for the remainder of the year,” Mr. Farmer added.

For full-year 2019 compared to the full-year 2018, management expects growth in average loans of 3% to 4%. Additionally, management forecasts net interest margin should expand by 2% and non-interest expense should fall by up to 2%. The target for 2019 common equity Tier 1 capital ratio is 10% through continued return of excess capital. While we know that CMA faces headwinds, especially in regard to lower interest rates, we like the company’s improved balance sheet flexibility that should help drive future EPS growth and return of capital to shareholders. Despite having one of the most attractive deposit franchises, CMA trades for just 9.1 times NTM adjusted EPS estimates and yields 3.8%. Our Target Price has been trimmed to $105.

Diversified bank **Citigroup** (C – $70.92) reported adjusted Q2 EPS of $1.83 (vs. $1.80 est.). Despite the bottom-line beat, revenue for the period slightly trailed expectations ($18.41 billion vs. $18.52 billion est.). Net income not adjusted for one-time items came in at $1.95 for the period as Citi benefited from a pretax gain of $350 million from its ownership in Tradeweb, which recently went public. While overall corporate and institutional banking revenue was flat for the quarter, investment banking revenue fell 10%, but global consumer banking revenue rose 3%. Citi’s U.S. retail presence lags behind peers in many respects, but the bank has been investing heavily to expand, particularly through digital and mobile banking. Revenue for U.S. consumer banking was up 3%, driven by a pickup in Citigroup’s branded credit cards. The company continued to reduce operating expenses and return on tangible common equity reached 11.9%, helping to continue to make management’s goal for a full-year number of 12%+ seem quite achievable.

Conclusions

1H'19 results showed continued momentum in a challenging environment

- Year-over-year revenue growth across products and regions in GCB(1)
- Growth in accrual businesses in ICG, while trading businesses declined
- Positive operating leverage and continued credit discipline
- Delivered 15% YoY EPS growth in 1H'19, including impact of share buybacks
- Improved RoTCE year-over-year to 11.9%(2)

Continued strong capital position

- Common Equity Tier 1 Capital Ratio of 11.9%(2)
- Supplementary Leverage Ratio of 6.4%(2)

Opportunities for continued progress

- Continuing to invest in higher return businesses while maintaining expense discipline
- Delivering consistent results and positioning Citi for improved RoTCE
- Plan to return $21.5B of capital to common shareholders over the next four quarters

Note:
(1) In constant dollars. Constant dollar excludes the impact of foreign exchange translation into U.S. dollars for reporting purposes. For a reconciliation of constant dollars to reported results, please refer to Slide 29.
(2) Preliminary. For additional information on these measures, please refer to Slides 27, 28 and 29.

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Citigroup CEO Michael Corbat commented, "Our earnings per share of $1.95 for the second quarter were 20% higher than one year ago. We navigated an uncertain environment successfully by executing our strategy, and by showing disciplined expense, credit and risk management. We increased our Return on Assets year-over-year to 97 basis points; and generated a Return on Tangible Common Equity of 11.9%, over 100 basis points better than last year. We delivered positive operating leverage for the 11th straight quarter and improved our efficiency, while again increasing loans and deposits. We have good momentum and solid growth across our consumer franchise, particularly in the U.S., while in the ICG, our industry leading Treasury and Trade Solutions business continues to perform well and we gained share in market-sensitive products such as Investment Banking."

He continued, "During the quarter, we received a non-objection from the Federal Reserve for our 2019 CCAR submission. That will allow us to meet the goal we set at Investor Day to return at least $60 billion in capital over three CCAR cycles. Our $21.5 billion capital return will raise the three-year total to $62.3 billion. Buybacks have reduced our common shares outstanding by 10% over the last year alone and helped drive our Tangible Book Value per share up 10% over the same time period. We remain committed to improve our returns on capital while continuing to provide meaningful capital return to our shareholders."

With improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business), offset by headwinds from the potential for lower interest rates for longer, we believe that Citi shares trade far from fair value, even with a 40% or so total return his year. C is priced at just 8.7 times NTM adjusted EPS expectations and 90% of book value. We continue to see a more focused and recapitalized Citigroup as prepared to reward investors over the long-term. We like that C has good leverage towards the solid U.S. economy, while also having the potential to show outsized benefits versus its peers from growth in Asia, Latin America and other emerging economies. Even though the company faces plenty of operational hurdles in different segments of its business, we think the bank is on its way to achieving its low-50s efficiency-ratio target by 2020. Additionally, the current dividend yield now stands at 2.8%, and Citi continues to consistently buy back its stock. Our Target Price for C has has been bumped up to $105.