Market Commentary Monday, August 26, 2019

August 25, 2019

EXECUTIVE SUMMARY

Newsletter Portfolio Sales – Per the 8.15.19 Sales Alert, Sold TPC, ACA & TRN on 8.19.19
Trade Skirmish Escalates – More Tariffs; Stocks Plunge on Friday
Powell Speaks – Fed Appears Likely to Lower the Fed Funds Rate
Econ News – LEI Surprisingly Strong
Interest Rates – Income From Equities Very Appealing
Inversions and Stocks – Fact over Fiction
Recessions and Stocks – Economic Downturns No Reason to Sell
Valuations – Inexpensive Metrics for our Portfolios
Scary Events – Equities Have Survived Plenty of Bad News Through the Years
Stock Updates – SFL, FL, KSS, LOW, TGT, MDT, CM & BHP

Market Review

A little housekeeping…as indicated on our *Sales Alert* of August 15, we sold three stocks for our newsletter portfolios with our usual waiting period on Monday, August 19. For Buckingham Portfolio, these included 282 shares of **Tutor Perini** (TPC) at $10.4178; 116 shares of **Arcosa Inc**. (ACA) at $33.1296 and 348 shares of **Trinity Industries** (TRN) at $17.1730. For TPS Portfolio 1,345 shares of TPC were sold at the same $10.4178 price. We also will use those prices to close out the positions in our hypothetical Millennium Portfolio and PruFolio. The former held 516 TPC, while the latter held 1,050 TPC, 236 ACA and 708 TRN.

The trading week just ended was shaping up to be a very good one before a huge setback occurred on Friday, following another ramp-up in the trade battle with China. After the Middle Kingdom placed added duties of 5% to 10% on $75 billion of U.S. auto, agricultural, apparel, textile and chemical products, President Trump quickly tweeted in response, "Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing your companies HOME."

The major U.S. market averages skidded anywhere from 2.4% to 3.0% following the Friday morning events, and the White House after the close of trading said it would raise the existing tariff rate on about $250 billion of Chinese goods by another 5% on October 1 to a 30% rate. In addition, the new 10% tariffs on another $300 billion that were planned to go into effect on September 1 and December 15 will increase to 15%.

No doubt, the escalation of trade hostilities and the uncertainty placed on businesses here and abroad will further weigh on the world economy with Jerome Powell stating on Friday morning, "We have seen further evidence of a global slowdown, notably in Germany and China.

Geopolitical events have been much in the news, including the growing possibility of a hard Brexit, rising tensions in Hong Kong and the dissolution of the Italian government."

Of course, the Fed Chair's comments were initially viewed positively by equity investors early on Friday, especially as he stated, "We will act as appropriate to sustain the expansion, with a strong labor market and inflation near its 2% symmetric objective," implying that more near-term cuts in the Fed Funds rate are likely.

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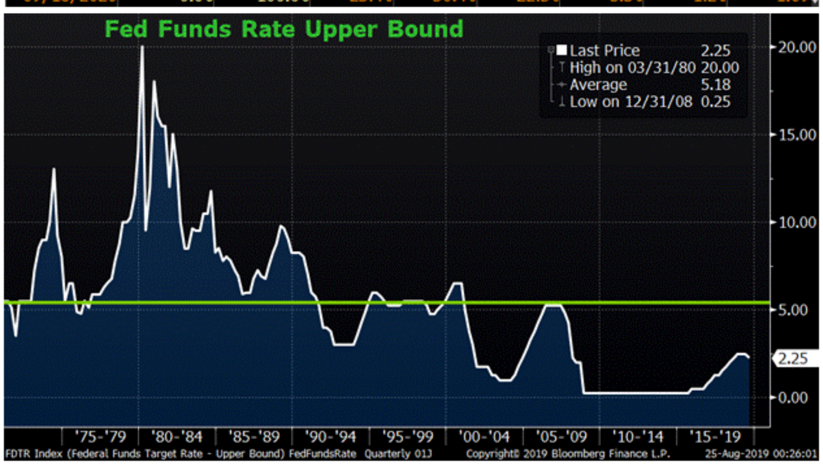
THE PRUDENT SPECULATOR
Low Interest Rates Headed Lower Still

99) Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.12
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 08/23/2019 — Based on rate 2.00-2.25

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
09/18/2019	0.0%	100.0%	0.0%	0.0%	0.0%	16.6%	83.4%	1.83
10/30/2019	0.0%	100.0%	0.0%	0.0%	11.1%	61.3%	27.6%	1.67
12/11/2019	0.0%	100.0%	0.0%	7.3%	44.0%	39.2%	9.5%	1.50
01/29/2020	0.0%	100.0%	4.0%	27.6%	41.3%	22.7%	4.2%	1.36
03/18/2020	0.0%	100.0%	10.3%	31.3%	36.4%	17.8%	3.1%	1.30
04/29/2020	0.0%	100.0%	15.2%	32.5%	32.0%	14.4%	2.4%	1.24
06/10/2020	0.0%	100.0%	19.0%	32.4%	28.1%	11.7%	1.9%	1.18
07/29/2020	0.0%	100.0%	21.6%	31.6%	25.0%	9.9%	1.5%	1.14
09/16/2020	0.0%	100.0%	23.4%	30.4%	22.3%	8.3%	1.2%	1.09



It is fascinating that investors, at least as evidenced by the Fed Funds Futures market, now believe that the Federal Reserve has a 51.3% chance of three or more additional interest rate cuts by year end after fretting back in December that Jerome Powell & Co. were on a pre-set course to hike rates throughout 2019.

That said, Mr. Powell was quick to add, "Trade policy uncertainty seems to be playing a role in the global slowdown and in weak manufacturing and capital spending in the United States. There are no recent precedents to guide any policy response to the current situation. Moreover, while monetary policy is a powerful tool that works to support consumer spending, business investment and public confidence, it cannot provide a settled rulebook for international trade."

Clearly, there is plenty of uncertainty regarding the economic outlook, even as there was arguably good news out last week related to near-term expected GDP growth. Interestingly, the Conference Board's Index of Leading Economic Indicators (LEI) came in well above consensus forecasts, rebounding by 0.5% in July, following drops of 0.1% in both May and June.

THE PRUDENT SPECULATOR
Strong Forward-Looking Economic Gauge

The forward-looking index of Leading Economic Indicators jumped by 0.5% on a month-over-month basis in July, though the Conference Board was quick to state, “While the LEI suggests the US economy will continue to expand in the second half of 2019, it is likely to do so at a moderate pace.” The manufacturing and yield spread components were weak last month, and stock prices have been hit hard this month, but the July advance was well above normal and was hardly recessionary.

The twists and turns in the trade headlines will no doubt keep stock trading volatile, but for long-term-oriented investors the continued likelihood of modest U.S. GDP growth, a very friendly Federal Reserve and extraordinarily low interest rates make equities very attractively valued.

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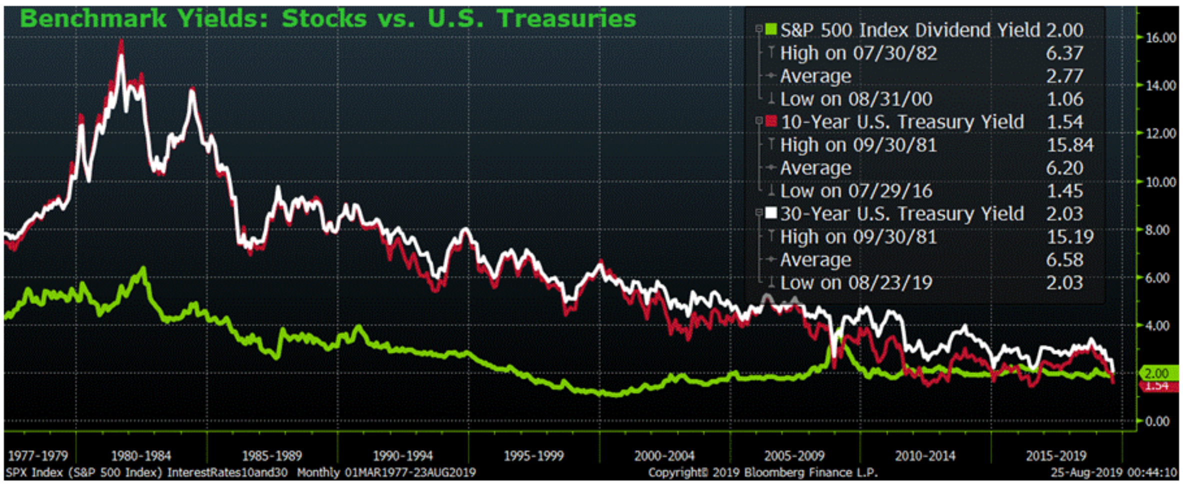
Equity vs. Treasury Yields

Though stocks are not necessarily a substitute for government bonds, the current payout on the S&P 500 (2.00%) is very generous versus that available from U.S. Treasuries, with the yield on Uncle Sam's 30-year bond plumbing historic lows. Incredibly, over the past four decades, the only other time dividend yields have compared so favorably to the income from the 30-year was during the Financial Crisis.



True, investors were again faced with supposed alarm bells when the 10-Year/2-Year U.S. Treasury yield curve inverted on a couple of occasions last week, including a brief occurrence on Friday,…

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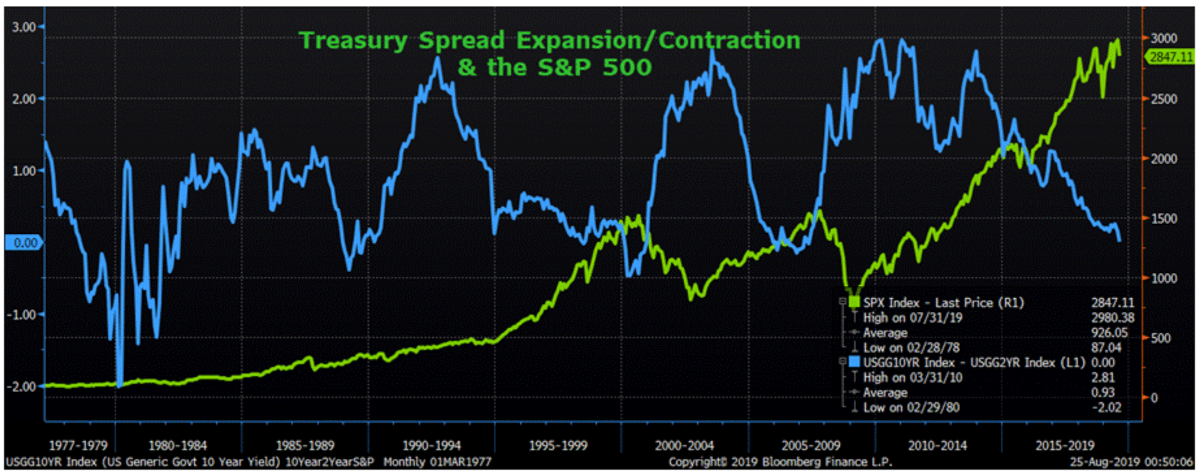
10-Year/2-Year Spread & Equities

While the media was abuzz with recession warnings after the 10-Year less 2-Year U.S. Treasury spread again fell into negative territory last week, history shows that long-term-oriented equity market investors have done just fine over the past four-plus decades despite several yield-curve inversions…and the inversion as of this moment is no longer.



…but we wish that the financial press would crunch a few numbers on what actually has taken place in the equity markets following prior inversions before erroneously raising red flags.

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10-Year/2-Year Inversions and Stocks

We respect that recessions have often eventually followed the inversion of the yield curve, but we counsel investors to consider what historically has occurred, on average, in the equity markets one-year after the yield on the 2-Year Treasury has eclipsed that of the 10-Year Treasury.

Total Return Since Initial 10-Year/2-Year Yield-Curve Inversion

Initial Inversion Date	1 Year Russell 3000 Value	1 Year Russell 3000 Growth	1 Year S&P 500 Index	1 Year Dow Jones Industrial Average
8/18/1978	NA	NA	9.2%	4.5%
9/12/1980	9.0%	2.6%	1.8%	-1.3%
1/14/1982	20.8%	20.5%	34.4%	36.4%
12/13/1988	23.4%	36.2%	32.1%	34.3%
3/8/1990	6.2%	21.3%	14.2%	13.9%
6/9/1998	11.5%	22.6%	19.6%	20.2%
2/2/2000	12.1%	-17.5%	-3.1%	0.3%
1/31/2006	18.9%	9.5%	14.5%	18.9%
Average	**14.6%**	**13.6%**	**15.3%**	**15.9%**

Source: Kovitz Investment Group using data from Bloomberg and the St. Louis Federal Reserve. Prior to 1998, only month-end data is available for the Russell 3000 Value and Growth Total Return Series.

All One-Year Returns When 2-Year Yield > 10-Year Yield

Statistic	Russell 3000 Value	Russell 3000 Growth	S&P 500	DJIA
Average	**10.7%**	**8.0%**	**9.7%**	**10.9%**
Median	**9.1%**	**12.9%**	**12.4%**	**9.8%**
Max	**61.6%**	**71.7%**	**67.5%**	**67.0%**
Min	**-16.9%**	**-50.7%**	**-32.5%**	**-22.8%**
# Positive	**1068**	**866**	**950**	**1045**
# Negative	**346**	**548**	**555**	**460**

Source: Kovitz Investment Group using data from Bloomberg and the St. Louis Federal Reserve. Prior to 1998, only month-end data is available for the Russell 3000 Value and Growth Total Return Series.

That does not mean that we are denying that an inversion has been a harbinger of recession in the past, but those who bother to look at what has happened to stocks, on average, pre- and post-economic contraction might wonder what all the fuss is about, especially for folks who play in the Value sandbox.

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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%	199727%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	371191%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	267517%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	217284%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	89757%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	41198%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	31017%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	13331%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	11257%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	7045%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.4%	408.6%	5670%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.0%	424.9%	1367%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	254%
9.0%	-5.7%	December 2007	-40.4%	-36.2%	-13.0%	-6.6%	5.3%	5.7%	117.4%	119.5%	143%
7.4%	**10.6%**	**Averages**	**-0.1%**	**2.3%**	**27.9%**	**44.4%**	**53.0%**	**85.8%**	**216.4%**	**338.2%**	**89768%**

As of 8.23.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Clearly, we respect that the awful plunges associated with the Great Recession and the Great Depression are part of the table above, so there is tremendous dispersion around those average returns, but there is plenty of debate on the yield-curve's forecasting power this time around, especially given the unprecedented central bank buying of longer-term government debt around the world. And, we note that **Bank of America** (BAC – $26.47) CEO Brian Moynihan does not see a recession on the horizon, as he believes that the U.S. consumer remains healthy. Mr. Moynihan stated this past Wednesday, albeit before the latest trade developments, "But what's going to make that happen is the underlying U.S. consumer. And the underlying consumer is doing well and making more money, they're employed; and more importantly, they are spending more money."

To be sure, anything can happen in the equity markets, and we still are mired in the seasonally less-favorable summer months, while the equity futures are indicating that the selling is likely to continue as the new trading week begins. However, we see no reason to alter our long-term enthusiasm for our broadly diversified portfolios of what we believe to be undervalued stocks, generally of dividend-paying companies, especially as the August swoon has made valuation metrics less expensive and yields even more generous.

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Managed Account Ports & Benchmarks

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CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.3	11.2	1.0	1.8	3.3
Select Value	12.8	11.5	1.1	1.8	2.9
Select Dividend	12.7	11.5	0.9	1.8	3.6
Select Focused Dividend	11.8	11.0	0.9	2.0	3.7
Select Focused Value	13.1	12.1	1.3	2.2	2.9
Select SMID Dividend	11.8	10.8	0.5	1.4	3.4
Russell 3000	20.0	18.0	1.9	3.0	1.9
Russell 3000 Growth	27.3	23.4	3.1	7.7	1.2
Russell 3000 Value	15.6	14.4	1.4	1.9	2.7
Russell 1000	19.3	17.6	2.1	3.2	2.0
Russell 1000 Growth	25.7	22.6	3.3	8.1	1.2
Russell 1000 Value	15.2	14.3	1.5	1.9	2.7
S&P 500 Index	18.6	17.2	2.1	3.2	2.0
S&P 500 Growth Index	24.4	21.5	3.6	5.5	1.5
S&P 500 Value Index	14.6	13.9	1.4	2.2	2.6
S&P 500 Pure Value Index	10.8	10.0	0.6	1.1	3.1

As of 08.24.19. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

We are not suggesting that the trade battle and the threat of recession are not disconcerting, and we are braced for more bouts of stomach-churning volatility, but there have been numerous far-more-worrisome events domestically and on the global stage that investors have had to deal with over the past eight decades,…

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Lots of Frightening Events

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	32701%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	18881%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	16959%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	6582%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	7204%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5223%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	3990%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3674%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	2989%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	3968%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2606%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2799%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2283%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1658%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1063%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1166%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	800%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	656%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	591%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	542%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	523%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	463%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	225%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	197%
Clinton Impeachment Proceedings	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	131%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	112%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	195%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	211%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	161%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	138%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	321%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**3839%**

As of 8.23.19. Source: Kovitz Investment Group using Bloomberg and Ned Davis Research Events & Reaction Dates

History is filled with plenty of disconcerting events, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

…while we note that Warren Buffett stated back on May 6, 2019, on *CNBC TV*, "I think stocks are ridiculously cheap if you believe…that 3% on the 30-year bonds makes sense." Given that the yield on the long-bond now stands close to 2% and the major equity market averages are lower today, while earnings are modestly higher, the Oracle of Omaha would likely need to find a far-greater superlative phrase than "ridiculously cheap" to describe the current valuations presently offered by Wall Street.

Stock Updates

Chris Quigley and Jason Clark offer updates on eight of our companies that had news last week that was of sufficient importance to trigger a review of their Target Price. 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/.

Marine shipping concern **Ship Finance Int'l** (SFL – $13.72) saw its shares rise almost 8% last week after reporting Q2 financial results. While SFL's top- and bottom-line came in below consensus analyst expectations, investors seemed to be motivated by the company's solid cash flow and continued additions to its multibillion-dollar revenue backlog. For Q2, SFL reported earnings per share of $0.17, versus the $0.20 estimate. SFL had adjusted revenue of $110.9 million, versus the $113.5 million projection.

CEO Ole B. Hjertaker stated, “Over years, SFL has solidified its position in the maritime industry with a diversified portfolio of assets supported by a strong technical and commercial operating platform. This gives us the ability to offer a wide range of services to our customers, from structured financing to full-service time charters…We are careful and selective in our investments, and with our portfolio approach we have been able to time our investments in each segment through the market cycles. Our consistent ability to access attractively priced capital has allowed us to continuously renew our fleet and pursue profitable growth opportunities. As a result, $2.2 billion has been returned to shareholders through dividends since 2004, and we have a significant charter backlog supporting future distribution capacity.”

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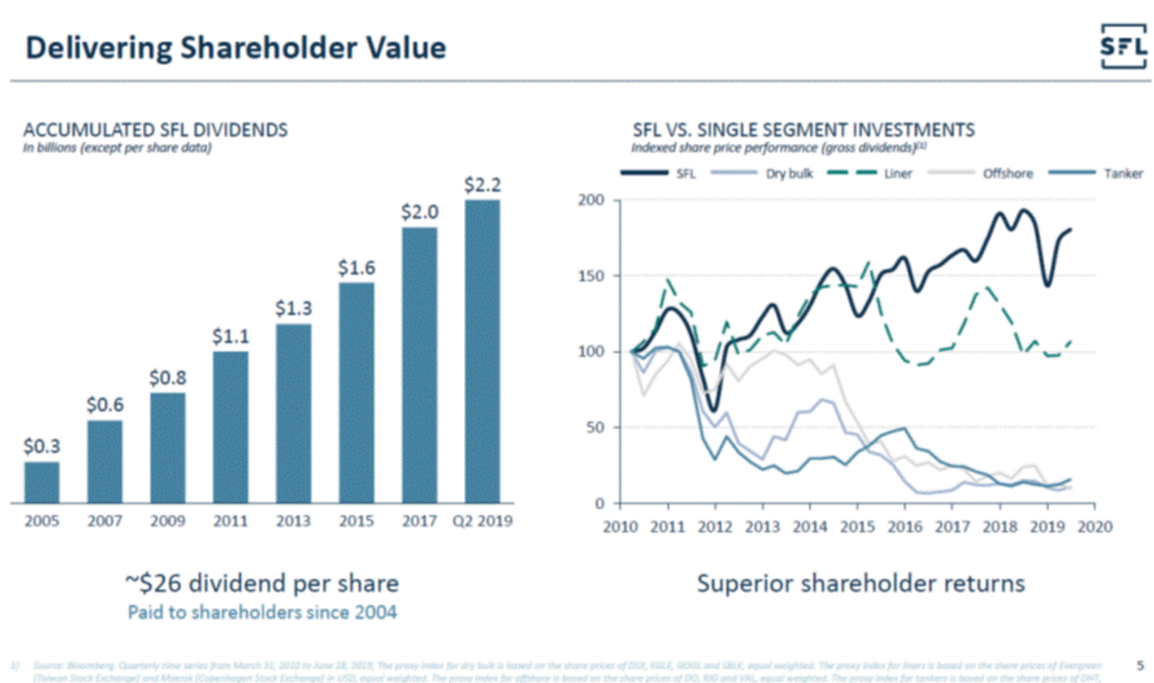
SFL – Strong Relative Performer



We like that management continues to be committed to maintaining an overall conservative profile as evidenced by its strategy to charter out most of its assets on a long-term basis to reputable operators in the shipping and offshore markets. We also are pleased that it is making fleet changes to reflect the current operating environment, while keeping an eye on the long term. The current 10.2% dividend yield is very rich, while the stock trades for 1.2 times book value and 13 times NTM adjusted EPS expectations. Our Target Price for SFL now stands at $17.

Shares of **Foot Locker** (FL – $34.00) plummeted almost 19% Friday after the specialty retailer reported fiscal Q2 2020 results that came in below consensus analyst expectations and the news on trade kept many bargain hunters on the sideline. Revenue for the period totaled $1.77 billion, versus estimates of $1.82 billion, while adjusted EPS was $0.66, compared to forecasts looking for $0.67. While those numbers only modestly trailed expectations, the stock was pummeled on news that same store sales growth came in at 0.8%, well below forecasts calling for 3.2%.

"While our results in the second quarter did come in at the low end of our expectations, we saw improvement in our performance as we moved through each month of the quarter," said CEO Richard Johnson. "We remain deeply connected with sneaker and youth culture, and believe this positive momentum exiting the quarter has us well positioned for the back-to-school period and beyond. Further, our team continues to make meaningful progress against our long-term strategic imperatives."

The company's cash totaled $939 million, while the debt on its balance sheet was $123 million, even after FL bought back 2.9 million shares for $120 million during the quarter and paid a quarterly dividend of $0.38 per share, for a total of $41 million.

"In addition to making meaningful investments in our stores and digital capabilities during the quarter, we maintained our disciplined approach to inventory management and are set-up to continue flowing fresh, exciting product offerings for the back-half of 2019," said CFO Lauren Peters. "We remain optimistic that we can deliver a mid-single digit comparable sales gain for the full year and high-single digit adjusted EPS growth."

While the results were a bit disappointing, we think the Friday selloff was way overdone, especially given that the share price was already down significantly on the year from the $53 and change level at which it ended 2018. Of course, we understand that in the near-term, the stock could remain under pressure because of the trade hostilities with China and the concern that its main suppliers (Nike and Adidas) are putting more emphasis on trying to build direct relationships with end consumers.

That said, we like that the company has continued to reiterate its four strategic imperatives: elevating customer experience; investing in long-term growth; driving productivity; and leveraging the power of its talent pool. We are also constructive on the continued work to become a more well-rounded omni-channel retailer. We think the digital channel still holds a lot of opportunity and we have been pleased to see the growth, but it doesn't come without investment (via digital add spend with platforms like Google and Facebook) which will also keep some near-term pressure on margins.

FL yields 4.7%, while the stock trades for less than 7 times NTM adjusted EPS expectations, yet consensus profit forecasts still call for EPS growth in each of the next three years. We have cut our Target Price for FL to $72, but the 36% YTD decline in the stock surely discounts a lot worse in the way of operating results than appears likely to occur.

Shares of family-oriented department store operator **Kohl's** (KSS – $45.18) went on a roller-coaster ride last week, rising and falling on trade concerns and retail-sector earnings reports, in addition to the announcement of its own fiscal Q2 2020 financial results. All in all, the stock ended a lousy week for the equity markets down less than 1%.

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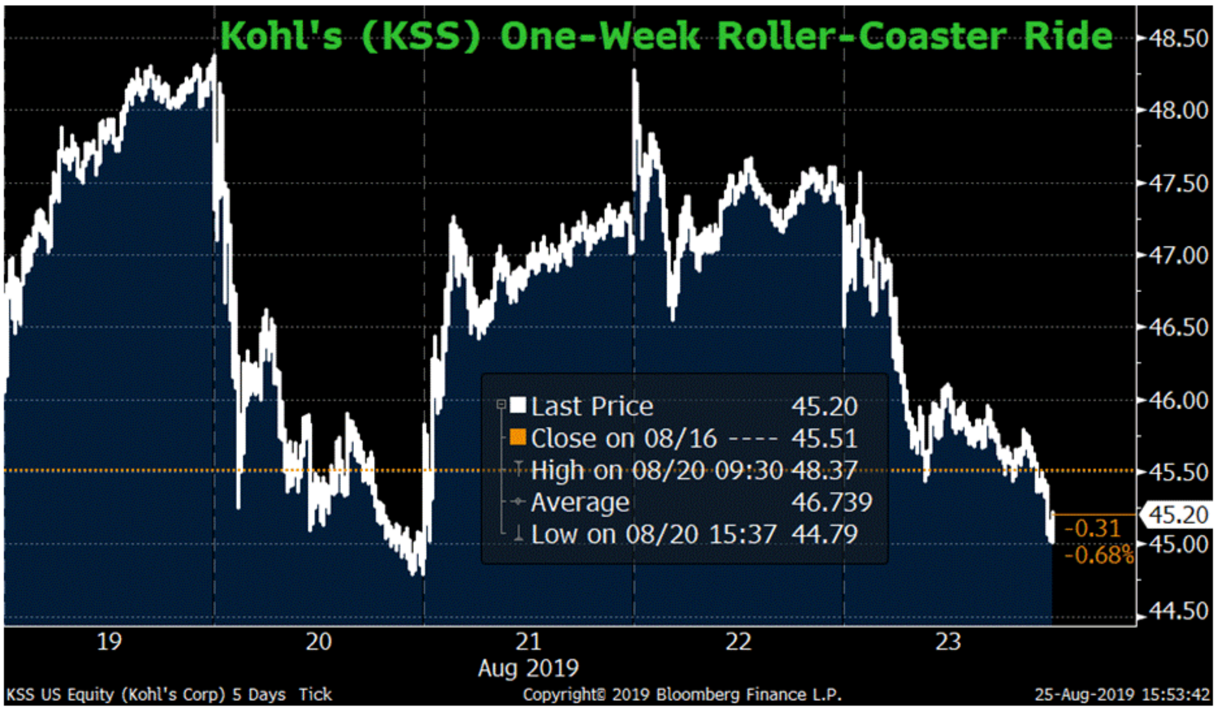
THE PRUDENT SPECULATOR
KSS – Volatility Galore but Little Change



In terms of fiscal Q2 numbers, management said adjusted earnings per share was $1.55, better than the consensus analyst estimate of $1.53. Revenue of $4.17 billion slightly trailed forecasts of $4.2 billion. Same store sales fell 2.9%, but management struck a positive tone. CEO Michelle Gass explained, “We are pleased to report that our business strengthened as we progressed through the second quarter. Comparable sales were better than the first quarter and improved during the period, turning positive during the last six weeks of the second quarter with 1% growth. This positive trend has continued into August driven by a successful start to the back-to-school season. We are confident that our upcoming brand launches, program expansions, and increased traffic from the Amazon returns program will incrementally contribute to our performance during the balance of the year and beyond.”

The company affirmed its adjusted annual EPS guidance of $5.15 to $5.45, which excludes $0.26 per diluted share related to impairments, store closings and other costs recognized in the first six months of 2019.

Despite the short-term setback and the potential near-term headwinds blown by the ongoing trade conflict with China, we continue to like Kohl’s evolution and believe there are initiatives in place to boost sales in the second half of the year. Our Target Price for KSS has been trimmed to $71, but we note that the stock now trades for 8.6 times estimated earnings and yields 5.9%, while the company has been actively repurchasing its shares.

Shares of **Lowe's Cos** (LOW – $106.39) soared after the home improvement chain reported that it earned $2.15 per share in fiscal Q2 2020 (vs. $2.01 est.). LOW had sales of $21.0 billion (vs. $21.0 billion est.). Even with Friday's selloff, the stock gained more than 13% for the week, as investors were encouraged by the company's strong Q2 margin (32.1% vs. 31.6% est.) and growing comparable sales (2.3% quarter over quarter vs. 1.7% est.).

"We saw broad-based growth across all 15 geographic regions, generating positive comps. Three of our top 4 performing regions were in the Western division. In addition to the Western regions, we also had great performance across the following regions that outperformed the total company comps: Atlanta, Boston, Charlotte and Tampa," commented CEO Marvin R. Ellison. "Overall performance in the quarter demonstrated continued momentum executing our retail fundamentals framework. And with the initiatives we've put in place, we continue to make steady, deliberate progress to better serve customers, position our business for long-term success and improve our results in categories that have historically underperformed. On Lowes.com, we posted comp growth of approximately 4% in the second quarter… In addition to solving these process and systems issues, we're taking aggressive steps to improve the technology foundation of Lowes.com. We'll re-platform the entire site to Google Cloud."

CFO David M. Denton added, "Given the dislocation of our stock price coming out of Q1, we ramped up our share repurchase activity and bought back nearly $2 billion of our stock at an average price of approximately $100. Early in Q2, we entered into a $990 million accelerated share repurchase agreement, retiring 9.9 million shares. And additionally, we repurchased 9.7 million shares in the open market for $974 million. This brings our year-to-date share repurchases to $2.8 billion with a plan to repurchase $4 billion for the year. We also have approximately $11.2 billion remaining on our current share repurchase authorization. We continue to invest in our core business with a focus on high-return programs designed to drive long-term shareholder value. In Q2, we had capital expenditures of $321 million."

Lowe's reaffirmed its previously issued full-year outlook, which included 2% revenue growth and adjusted EPS in the $5.45 to $5.65 range. The operating margin is expected to increase 310 to 340 basis points, while the effective tax rate is expected to come in at 24%.

The Lowe's numbers indicate to us that the economy has been strong of late, and we were also pleased to see the shares jump after a poor showing in Q1. We think the future remains favorable for LOW, and analysts tend to think so, too. EPS is expected to grow to reach $5.64 this fiscal year, $6.66 in fiscal 2021 and $7.57 in fiscal 2022, compared with the $5.13 earned in 2019. The shares aren't deeply discounted anymore, trading at 17.2 times forward earnings with a 2.1% yield, but we think LOW still deserves a spot in our broadly diversified portfolios. Our Target Price has been boosted to $126.

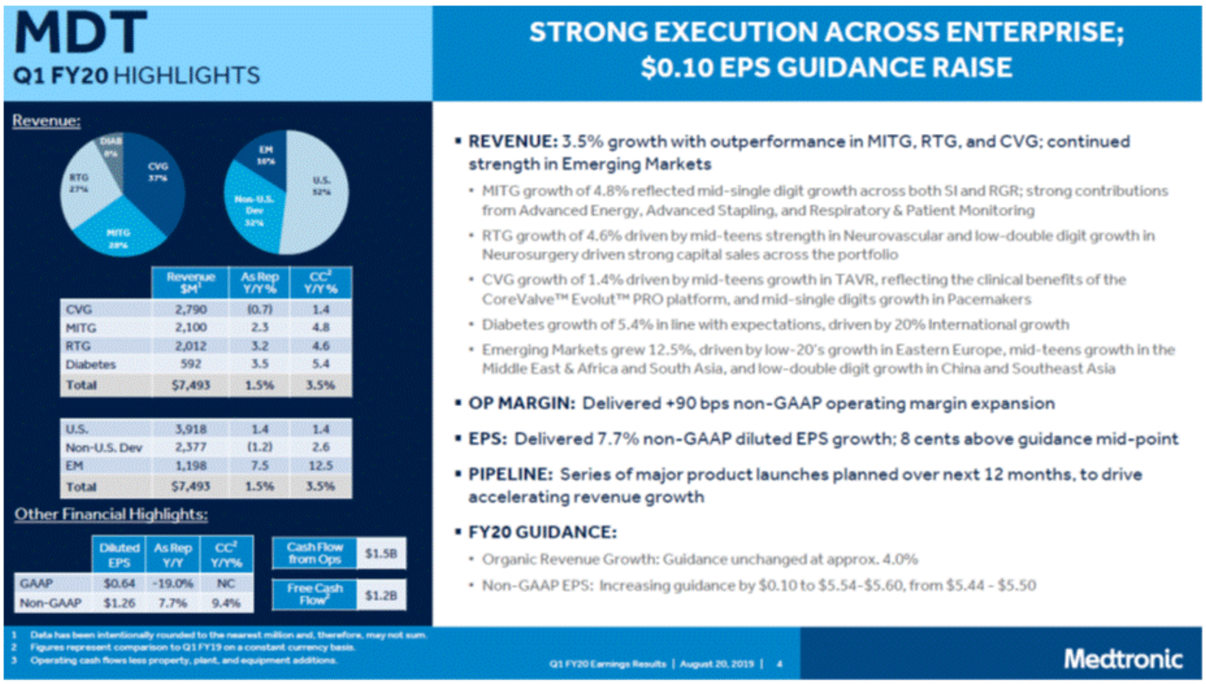
General merchandise discount store chain **Target** (TGT – $103.49) earned $1.82 per share in fiscal Q2 2020 (vs. $1.62 est.). TGT had sales of $18.4 billion (vs. $18.3 billion est.). TGT's strong execution and boosted guidance sent shares up a whopping 23% for the week, surpassing the previously established record closing price of $89.26 set in September of 2018.

CEO Brian Cornell explained, “When we began this journey to transform our business in 2017, we said that 2019 would be the year when we’d be positioned to deliver profitable growth, and our results through the first half of this year has certainly fulfilled that expectation. On the top line, our business delivered second quarter comparable sales growth of 3.4%, driven primarily by traffic. This growth was on top of unusually strong comp growth of 6.5% in the second quarter last year, meaning that our comp sales have increased about 10% since 2017, our best 2-year stacked performance in well over a decade. On the bottom line, our second quarter profitability was well ahead of our expectations. Our business delivered double-digit growth in operating income, which translated into record high earnings per share numbers and more than 20% EPS growth over the last year.”

CFO Catherine Smith added, “When we first announced our transformation plan at the beginning of 2017, we talked about the assets we had at our disposal, including well-maintained and well-located stores, powerful owned brands, an iconic Target brand, a strong balance sheet and a business that generates robust cash flow. But what was most important both in 2017 and today is the team that powers our business. As Brian said, we’re lucky to have the best team in retail, and every day, I’m grateful for the opportunity to work with them and learn from them.”

For fiscal 2020, TGT’s raised its guidance for EPS from a range of $5.75 to $6.05 per share to a range of $5.90 to $6.20 per share. Given the incredible share price moves, often to the downside, turned in by other retailers this earnings season, we suppose we shouldn’t be surprised by the nearly $10 billion jump in Target’s market capitalization on the report and the guidance boost, but one could certainly argue that the spike was overdone. While we are tempted to cash in some of our chips. we still think that Target’s evolution has been rewarding both for customers and shareholders and believe the company’s delivery options rival (or exceed) the choices offered by competitors. The small store format has been excellent–perhaps even saving the firm’s bacon–and management said it expects to open at least 30 of those stores per year for the foreseeable future. TGT still ranks highly in our proprietary scoring system and we think the future looks bright. Our Target Price for Target, which trades for 16.4 times NTM earnings and yields 2.6% (the quarterly payment was just bumped from $0.64 to $0.66 per share), has been markedly increased to $112.

Shares of **Medtronic PLC** (MDT – $106.05) continued their solid rebound since late-April, after the health care equipment developer and manufacturer posted solid fiscal Q1 2020 financial results that included both a top- and bottom-line that beat consensus analyst estimates. Adjusted EPS for the quarter came in at $1.26, compared to expectations of $1.18. MDT had sales of $7.49 billion (vs. $7.39 billion est.). The robust quarter was aided by tighter expense controls and solid growth in brain therapies, minimally invasive therapies, and coronary and structural heart units. “Medtronic had a solid first quarter, delivering revenue growth, operating margin expansion, and adjusted EPS growth all ahead of expectations,” said CEO Omar Ishrak. “It’s a good start to our fiscal year.”



Management expects revenue growth for the current fiscal year to be 4% on an organic basis. If current exchange rates hold, revenue growth would be negatively impacted by 0.8% to 1.2%. The company increased its fiscal year 2020 adjusted EPS guidance from a prior range of $5.44 to $5.50 to a new range of $5.54 to $5.60, including an estimated $0.10 negative impact from foreign exchange based on current rates. "As a result of our first quarter outperformance and confidence in our outlook, we are raising our full year EPS guidance," said Mr. Ishrak. "We're excited about what lies ahead, as we expect the investments we've made in our pipeline to begin to pay off with multiple pipeline catalysts, accelerating revenue growth, and value creation for our shareholders."

Even after the recent run-up, we continue to believe that MDT offers appealing long-term upside. We remain fans of Medtronic's diverse portfolio, as when certain product lines wane, new offerings are seemingly always rolled out to help offset slowdowns and foster growth. With domestic demographic trends in its favor, we like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT shares yield 2.0%, which relative to the yield on the U.S. 10-year Treasury actually is quite solid. Our Target Price for MDT has been hiked to $115.

Diversified bank **Canadian Imperial Bank** (CM – $75.24) earned $2.33 per share in fiscal Q3 2019 (vs. $2.30 est.). Shares gained 2% on the news, before retreating in Friday's broad selloff, helped by the U.S. operations, which generated higher earnings thanks to loan and deposit growth.

CM CEO Victor G. Dodig stated, "Our CET1 ratio ended at 11.4%, which gives us the flexibility to deploy capital towards investments in our business for long-term growth, while also returning capital to shareholders. We will be disciplined in deploying our capital, as we continue to prioritize organic investments across our business. And we will use the other three pillars of our deployment strategy to maximize long-term value creation for our shareholders. We remain open to inorganic investments, but only if there is the right cultural fit that enables our client-focused strategy and on financial terms that would make it accretive to our shareholders in a reasonable period of time. Given our strong capital position, in addition to dividend increases we will engage in shareholder – share buybacks to return capital to shareholders."

Mr. Dodig added, "Looking at organic investment, we have consistently invested in our business to enhance our capabilities for our clients, as well as to modernize our platforms. These investments are delivering clear results. We're driving strong top line growth in commercial banking across North America through new hires and expansion into new markets."

Overall, we have been pleased that the company has organically grown its U.S. business, while making strategic acquisitions, like Clearly Gull last quarter. Although the Canadian business continues to represent the lion's share of net revenue, CM's U.S. business is quickly growing to be an important portion of the company's diversified income stream. The U.S. accounted for just 4.3% of revenue in fiscal 2016 and grew to 11.8% in fiscal 2018, a trend we expect to continue when the company reports the final quarter of fiscal 2019 in a few months time. CM continues to benefit from the Canadian government keeping the banking segment attractive by maintaining barriers to entry. CM trades for less than 8.1 times forward earnings estimates and yields a just-increased 5.8%. Our Target Price has been bumped up to $106.

Shares of **BHP Billiton** (BHP – $46.69) have struggled since July, falling by nearly a quarter, as global macro uncertainty and trade tensions weighed heavily on the Australian natural resource giant. The company reported full-year fiscal 2019 results on Wednesday, which included adjusted EPS of $3.52 (vs. $3.80 est.) and revenue of $44.3 billion (vs. $44.7 billion est.).

CEO Andrew Mackenzie commented, "Higher prices and solid operating performance contributed to underlying EBITDA of $23 billion at a margin of 53%, as well to strong operating cash flows. And we use this cash to progress attractive growth projects, and after disciplined investment, converted this into a free cash flow of $10 billion. We've announced a record final dividend of $0.78 per share. That's a 73% payout ratio or $4 billion, which is on top of the $17 billion already distributed to shareholders this year. We've also invested in our future. We've had further exploration success in copper and oil. And with the approval of the Ruby oil and gas development, this month, we now have six major projects under development. All of these are on schedule and on budget. And they deliver average returns of around 20%."

CFO Peter Beaven stated that there are risks on the horizon that management is prepared to navigate around, "We operate in an uncertain world. Unpredictable policies, trade volatility and a slowdown in global growth have weakened confidence and affected commodity markets. And we do remain cautious about the short-term outlook. But as we look ahead, we are positive about the long-term outlook. We know this, because we run scenarios and monitor strategic themes to guide our actions, in order that we create a portfolio of assets and options that thrives in any future. We are acutely aware of the current trade tensions and consider downside scenarios in all our cash allocation decisions. With our balance sheet, solid operational performance and a flexible dividend policy, we are well positioned to weather any future volatility."

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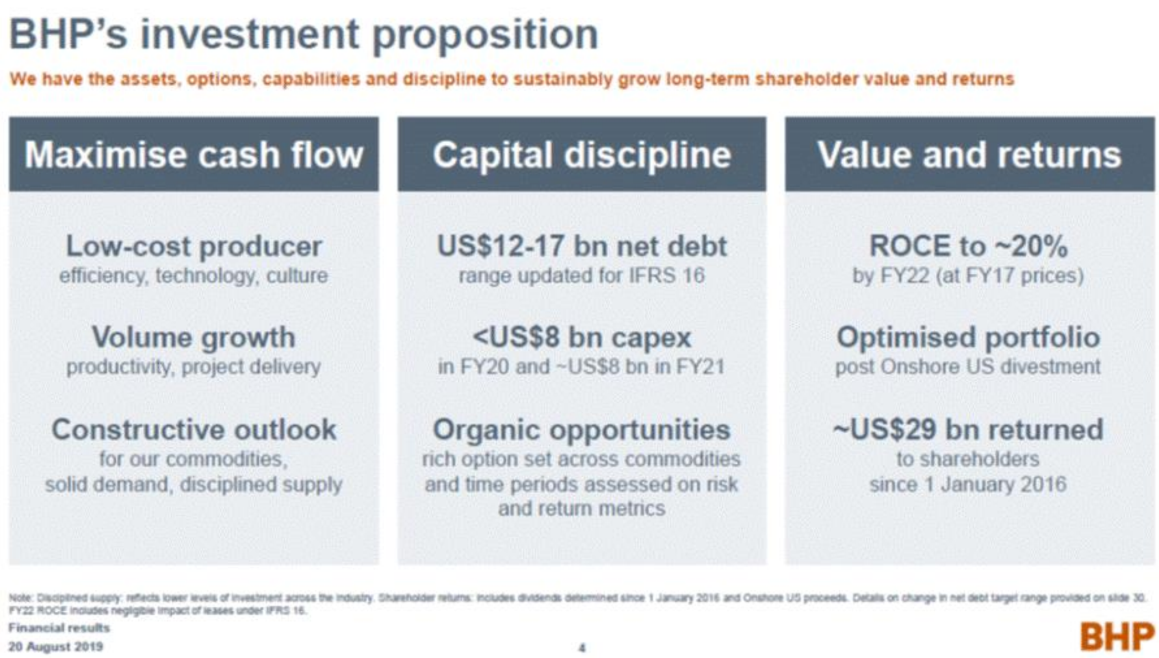
THE PRUDENT SPECULATOR
BHP – Still a Value Proposition



The Materials sector had a solid 2016 and 2017, but the space is volatile and the last year-plus has proven challenging. Yet, we continue to like BHP's diversified mining operations, which earns revenue from iron ore (40% of the total), base metals, including copper and silver (25%), coal (21%) and petroleum (14%). We certainly remember that BHP earned in excess of $4 per share every year from 2006 to 2014, and analyst estimates put BHP on track to once again cross that hurdle in fiscal 2020, though we understand that commodity prices are notoriously volatile. Our Target Price for BHP is now $62, and we note that the company has been a generous dividend payer through the years, with the last semi-annual payment equating to $1.10, putting the current annualized yield north of 4.5%.