Market Commentary Monday, October 21, 2019

October 21, 2019

EXECUTIVE SUMMARY

Buckingham on Bloomberg TV – Scheduled to Appear Monday, October 21, at 10:00 AM Pacific; 1:00 PM Eastern
Sentiment – Big Jump in the Bull-Bear Spread, But ICI Fund Flows Still Decidedly Against Stocks
Price-Weighted vs. Cap-Weighted – Boeing represents 9.3% of the Dow and 0.7% of the Russell 3000
Week in Review – Favorable Five Days
Econ Numbers – Weaker Data But Still Not Recessionary
Fed Speak – Fed Funds Rate Cuts Still Likely
Global Econ Outlook – IMF Lowers Growth Projections
Wall of Worry – Stocks Have Overcome Plenty of Scary Events Through the Years
Stock Updates – BAC, JPM, KEY, GS, BBT, STI, SYF, CMA, SLB, PNC, IBM, JNJ & MAN

Market Review

For those interested in seeing your Editor and keeping in mind that breaking news can always preempt an interview, I am scheduled to appear on Bloomberg Television today (Monday, October 21, 2019) around 10:00 AM Pacific; 1:00 PM Eastern.

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We might blame the contrarian folks at the American Association of Individual Investors (AAII) for the lousy end to the last trading week. After all, there was a massive 26.2 point jump in the AAII Bull-Bear Spread (13.3 point increase in the former and 12.9 point decrease in the latter), though it should be pointed out that the optimists are still running below the 38.0% average and the pessimists are slightly above the 30.5% norm. And, investors, after a modest bit of enthusiasm in September, again have been busy bailing out of stocks and piling into bonds,…

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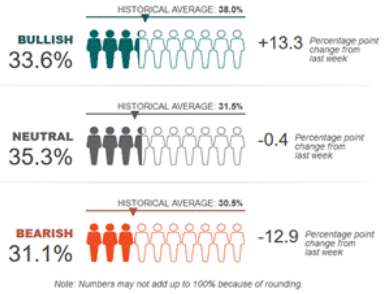
Sentiment: Mixed AAII & Pessimistic ICI

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 10/16/2019

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.

October 17, 2019 - Optimism among individual investors about the short-term direction of the stock market surged, while pessimism plunged in the latest AAII Sentiment Survey. Bullish sentiment, expectations that stock prices will rise over the next six months, rebounded by 13.3 percentage points to 33.6%. Even with the big increase, optimism remains below its historical average of 38.0% for the 34th time this year and the 22nd time in 23 weeks. Bearish sentiment, expectations that stock prices will fall over the next six months, pulled back by 12.9 percentage points to 31.1%. Bearish sentiment is above its historical average of 30.5% for the 11th time in 13 weeks.

The latest AAII Sentiment Survey showed a plunge in pessimism and a big jump in optimism to more normal though still modestly Bearish readings, but the most recent ICI calculation of exchange traded and mutual fund flows showed the third straight week of a massive exodus out of U.S. stocks.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	10/9/2019	10/2/2019	9/25/2019	9/18/2019	9/11/2019
Total Equity	-11,528	-13,852	-15,779	10,032	7,551
Domestic	-10,868	-11,812	-13,957	11,804	8,598
World	-660	-2,040	-1,822	-1,771	-1,047
Hybrid	-688	-1,147	-1,918	-843	-687
Total Bond	5,809	8,418	6,864	9,290	13,021
Taxable	3,856	6,803	4,587	8,902	11,734
Municipal	1,953	1,615	2,277	387	1,287
Commodities	425	489	2,356	260	-396
Total	-5,981	-6,091	-8,478	18,740	19,489

Source: Investment Company Institute

…continuing the trend that has been ongoing for more than a few years, per data from the Investment Company Institute.

Bonds Remain Stunningly Popular

With the S&P 500 at 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	Apr-16	-12,610	22,114	Jul-17	-12,386	29,164	Oct-18	-12,009	-32,405
Feb-15	5,547	30,321	May-16	-14,252	16,925	Aug-17	-18,937	26,418	Nov-18	2,780	-11,250
Mar-15	-1,494	4,905	Jun-16	-15,530	16,623	Sep-17	-9,636	36,476	Dec-18	-28,957	-49,413
Apr-15	-34,681	11,027	Jul-16	292	33,575	Oct-17	3,211	38,818	Jan-19	-21,198	29,298
May-15	-17,287	5,010	Aug-16	-9,956	30,859	Nov-17	-4,429	21,628	Feb-19	3,604	45,094
Jun-15	-7,023	6,324	Sep-16	-5,713	24,669	Dec-17	-9,066	19,158	Mar-19	-3,658	38,363
Jul-15	-14,864	-1,255	Oct-16	-23,109	13,855	Jan-18	10,777	56,779	Apr-19	-5,326	40,472
Aug-15	-18,569	-18,122	Nov-16	22,993	-13,289	Feb-18	-41,447	1,772	May-19	-24,681	21,015
Sep-15	-4,725	-10,849	Dec-16	18,859	-4,142	Mar-18	-22,173	15,920	Jun-19	-12,018	39,661
Oct-15	-807	15,397	Jan-17	4,966	31,061	Apr-18	-7,422	22,435	Jul-19	-7,789	44,633
Nov-15	654	-5,573	Feb-17	17,530	34,026	May-18	9,970	13,108	Aug-19	-35,554	26,255
Dec-15	476	-25,043	Mar-17	8,906	36,632	Jun-18	-13,123	14,470	**Totals:**	**-434,950**	**957,658**
Jan-16	-27,222	7,686	Apr-17	-8,370	22,116	Jul-18	984	25,956			
Feb-16	-9,108	11,915	May-17	-10,816	33,128	Aug-18	-6,658	19,585			
Mar-16	7,711	29,296	Jun-17	-8,022	29,420	Sep-18	880	18,102			

Of course, Friday's downturn was not that bad, assuming one's portfolio was not weighted 9.3% in Boeing, given that the 6.8% skid in the aircraft and defense concern accounted for 170 points of the 255-point loss in the headline-grabbing Dow Jones Industrial Average. That price-weighted index dropped 0.95% on 10.18.19, compared to more modest respective daily dips of 0.40% and 0.39% in the capitalization-weighted Russell 3000 and S&P 500 indexes.

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Boeing 14x More Important to the Dow

Index Comparison 30 Dow Stocks
Dow Jones Industrial Average vs. Russell 3000
One Day Performance 10.18.19

Company	Ticker	Price	Change	Change %	Contribution to Dow Point Change	DJIA Weighting	Basis Point Contribution to DJIA Return	Russell 3000 Weighting	Basis Point Contribution to R3K Return
3M	MMM	$163.10	-$0.44	-0.3%	-3.0	4.1%	-1.1	0.3%	-0.1
American Express	AXP	$116.76	-$2.34	-2.0%	-15.9	3.0%	-5.9	0.3%	-0.5
Apple	AAPL	$236.41	$1.13	0.5%	7.7	5.9%	2.8	3.6%	1.7
Boeing	**BA**	**$344.00**	**-$25.06**	**-6.8%**	**-170.0**	**9.3%**	**-62.9**	**0.7%**	**-4.5**
Caterpillar	CAT	$130.71	-$1.36	-1.0%	-9.2	3.3%	-0.8	0.2%	-0.1
Chevron	CVX	$114.74	-$0.61	-0.5%	-4.1	2.9%	-1.5	0.7%	-0.4
Cisco Systems	CSCO	$46.71	-$0.32	-0.7%	-2.2	1.2%	-0.8	0.7%	-0.5
Coca-Cola	KO	$54.78	$0.99	1.8%	6.7	1.3%	2.5	0.7%	1.3
Dow Inc	DOW	$47.96	$0.15	0.3%	1.0	1.2%	0.4	0.1%	0.0
Exxon Mobil	XOM	$67.61	-$0.53	-0.8%	-3.6	1.7%	-1.3	1.0%	-0.8
Goldman Sachs	GS	$206.52	$0.06	0.0%	0.4	5.2%	0.2	0.2%	0.0
Home Depot	HD	$237.93	$1.16	0.5%	7.9	5.9%	2.9	0.9%	0.4
Intel	INTC	$51.36	-$0.50	-1.0%	-3.4	1.3%	-1.3	0.8%	-0.7
Int'l Business Machines	IBM	$134.09	-$0.17	-0.1%	-1.2	3.4%	-0.4	0.4%	-0.1
Johnson & Johnson	**JNJ**	**$127.70**	**-$8.47**	**-6.2%**	**-57.4**	**3.4%**	**-21.3**	**1.2%**	**-7.6**
JPMorgan Chase	JPM	$120.56	$0.21	0.2%	1.4	3.0%	0.5	1.3%	0.2
McDonald's	MCD	$208.50	$1.65	0.8%	11.2	5.2%	4.1	0.5%	0.4
Merck & Co	MRK	$84.68	$0.88	1.1%	6.0	2.1%	2.2	0.7%	0.8
Microsoft	MSFT	$137.41	-$2.28	-1.6%	-15.5	3.5%	-5.7	3.6%	-5.8
Nike	NKE	$96.10	$0.54	0.6%	3.7	2.4%	1.4	0.4%	0.2
Pfizer	PFE	$36.46	$0.00	0.0%	0.0	0.9%	0.0	0.7%	0.0
Procter & Gamble	PG	$117.47	$0.84	0.7%	5.7	2.9%	2.1	1.0%	0.7
Travelers Cos	TRV	$141.36	$0.88	0.6%	6.0	3.5%	2.2	0.1%	0.1
United Technologies	UTX	$136.80	-$1.37	-1.0%	-9.3	3.5%	-3.4	0.4%	-0.4
Unitedhealth Group	UNH	$245.34	$1.67	0.7%	11.3	6.1%	4.2	0.8%	0.5
Verizon Comm	VZ	$61.05	$0.64	1.1%	4.3	1.5%	1.6	0.8%	0.9
Visa	V	$175.71	-$2.23	-1.3%	-15.1	4.5%	-5.6	1.0%	-1.3
Walgreens Boots	WBA	$55.30	-$0.64	-1.1%	-4.3	1.4%	-1.6	0.1%	-0.2
Walmart	WMT	$119.14	-$0.70	-0.6%	-4.7	3.0%	-1.8	0.6%	-0.3
Walt Disney	DIS	$130.89	-$1.48	-1.1%	-10.0	3.3%	-3.7	0.8%	-0.9
				Totals:	**-255.7**	**100.00%**	**-92.0**	**24.6%**	**-16.7**

Source: Kovitz Investment Group using data from Bloomberg

Comparing a price-weighted index like the antiquated Dow Jones Industrial Average and a more logical capitalization-weighted gauge like the Russell 3000, Boeing represented 9.3% of the former and only 0.7% of the latter on a very red 10.18.19. Another big loser that day, J&J had a 3.4% weight in the Dow and 1.2% in the Russell.

While the Dow ended the full week slightly in the red with a total return of -0.13%, it actually was a positive five days for the overall U.S. equity market, with the Russell 3000 gaining 0.56% and the S&P 500 advancing 0.55%. Value topped Growth, as the Russell 3000 Value index climbed 0.78%, versus a 0.34% increase for the Russell 3000 Growth index.

Stocks generally enjoyed the week, even as the domestic economic data was not exactly robust, given mediocre numbers on the health of the factory sector in the New York and the Mid-Atlantic regions,…

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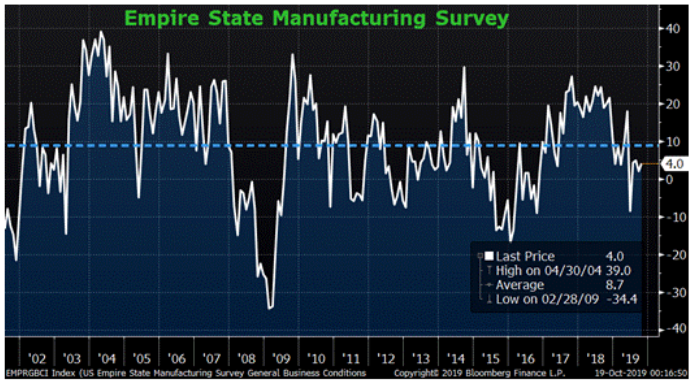
Lackluster East Coast Factory Statistics



Though the tally was much better than where it stood four months ago, the latest read on factory activity in the New York area came in at 4.0, below the historical average, but better than expectations. It was a mixed picture for the Philadelphia Fed's October measure of manufacturing activity in the mid-Atlantic region, which trailed forecasts with a below-normal score of 5.6, even as the orders component was very strong.

…and data on industrial production.

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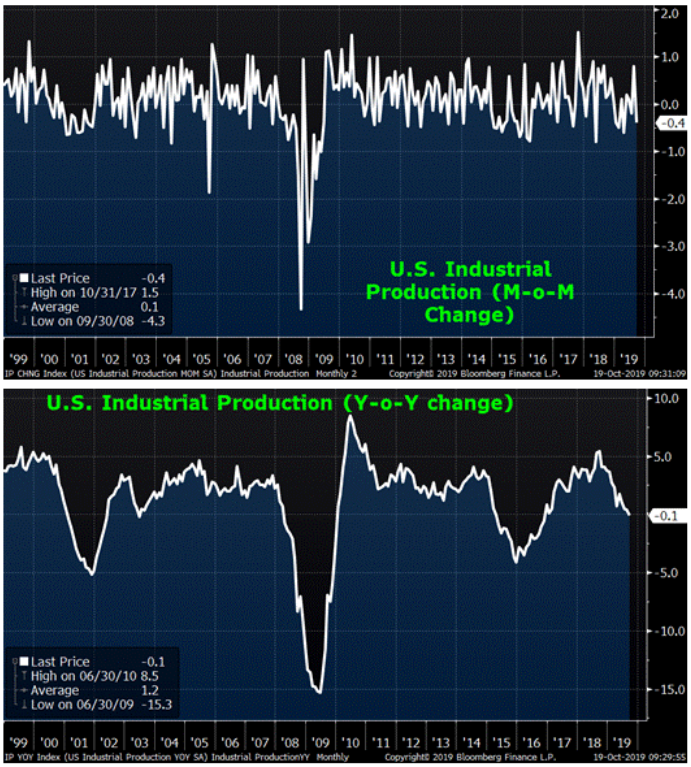
THE PRUDENT SPECULATOR
Industrial Production Retreats



Output at the nation's factories, mines and utilities fell sharply in September, no doubt hurt by the General Motors strike and the ongoing trade skirmish with China, with industrial production dropping by a more-than-expected 0.4% on a month-over-month basis. Manufacturing fell 0.5%, while utilities climbed 1.4% and mining dipped 1.3%. Of course, on an annual basis, overall industrial production was roughly flat (down 0.1%).

And, it wasn't just the manufacturing stats that disappointed, with a couple of data points on the health of the consumer not inspiring a lot of confidence,…

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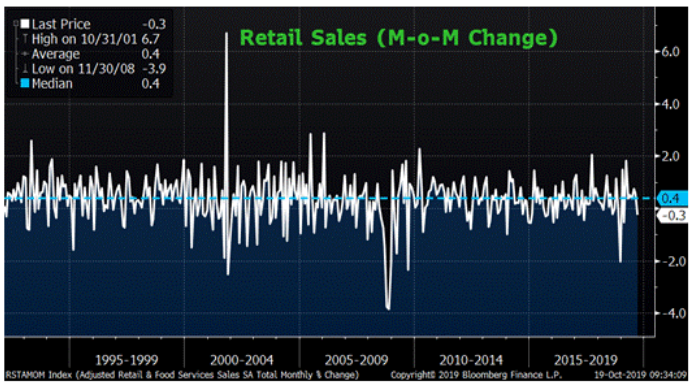
THE PRUDENT SPECULATORS
Consumers a Bit More Stingy



Though low mortgage rates and a strong labor market have been favorable catalysts, housing starts for September came in below expectations at 1.256 million units, declining from August's superb reading of 1.364 million. Meanwhile, retail sales fell an unexpected 0.3% last month, due mainly to a 0.9% drop in auto sales and a 0.7% reduction in gasoline sales, even as lower prices at the pump are hardly bad for consumer pocketbooks.

…and even the forward-looking Leading Economic Indicators (LEI) for September coming in weaker than projected.

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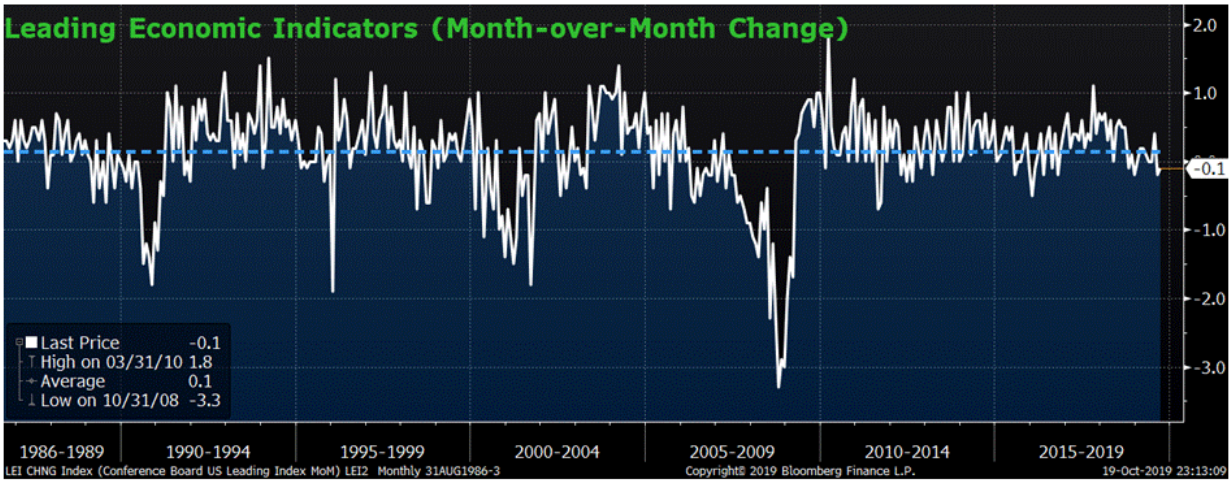
THE PRUDENT SPECULATOR
Forward-Looking September LEI Dips

The forward-looking index of Leading Economic Indicators inched lower by 0.1% on a month-over-month basis in September, while the August reading was revised down to a 0.2% decline. The results reflect uncertainty in the outlook and falling business expectations, though the number is still not indicating that a recession is imminent.



Interestingly, despite the softer economic figures, the odds of recession, at least according to Bloomberg, held steady,…

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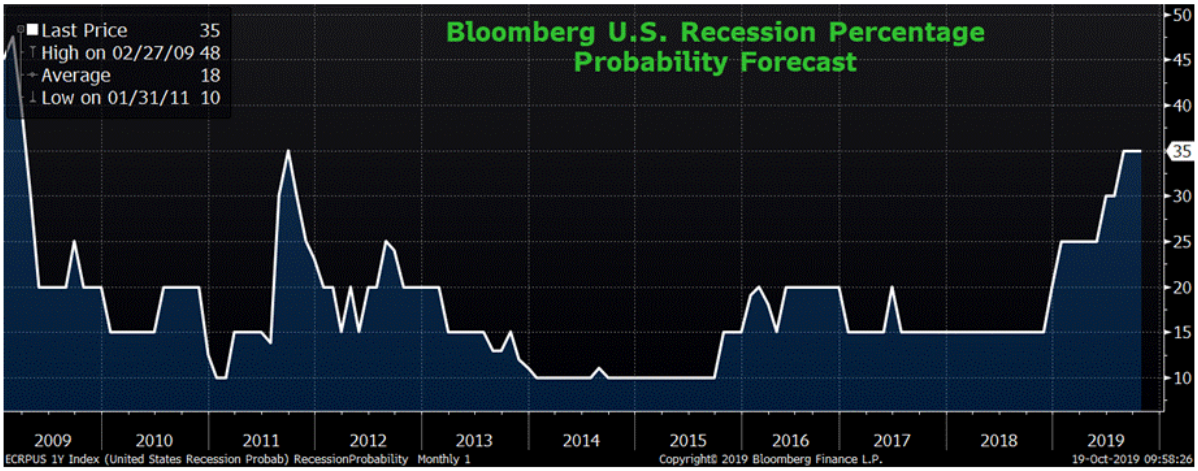
THE PRUDENT SPECULATOR
Recession Probability: Still at 35%

While it is clear that domestic and global economic growth is not as robust as most would like, and recent data points targeting how folks feel have come in surprisingly below expectations, the probability of recession remains at 35%. To be sure, this is the highest level 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.



…while the latest U.S. GDP growth estimate from the Atlanta Fed ticked up over the last week to 1.8%.

Recession Not Presently the Prediction

As the old saw goes, economists have predicted nine of the last five recessions, and the soothsaying so far in 2019 vividly illustrates why we like the Niels Bohr quotation, "Prediction is very difficult, especially if it is about the future." Indeed, seven months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then sink anew to a 1.8% guess today.

We also heard from several Federal Reserve officials last week, including Vice Chair Richard H. Clarida, who provided somewhat reassuring comments on Thursday,…

The U.S. economy is in a good place, and the baseline outlook is favorable. *The median expectation from Federal Open Market Committee (FOMC) participants' most recent Summary of Economic Projections is for GDP growth to be around 2 percent in 2019, for growth to continue near this pace next year, and for personal consumption expenditures (PCE) inflation to rise gradually to our symmetric 2 percent objective. The unemployment rate, at 3.5 percent, is at a half-century low, and wages are rising broadly in line with productivity growth and underlying inflation. There is no evidence to date that a strong labor market is putting excessive cost-push pressure on price inflation.*

But despite this favorable baseline outlook, ***the U.S. economy confronts some evident risks in this the 11th year of economic expansion***. *Business fixed investment has slowed notably since last year, exports are contracting on a year-over-year basis, and indicators of manufacturing activity are weakening. Global growth estimates continue to be marked down, and global disinflationary pressures cloud the outlook for U.S. inflation.*

U.S. inflation remains muted. *Over the 12 months through August, PCE inflation is running at 1.4 percent, and core PCE inflation, which excludes volatile food and energy prices, is running at 1.8 percent.*

*Turning now to monetary policy****, at both its July and September meetings, the FOMC voted to lower the target range for the federal funds rate by 25 basis points***. *With these decisions, the current target range for the federal funds rate is 1.75 to 2 percent, which compares with the range of 2.25 to 2.5 percent that prevailed between December 2018 and July 2019.* ***The Committee took these actions to provide a somewhat more accommodative policy in response to muted inflation pressures and the risks to the outlook I mentioned earlier***.

Looking ahead, monetary policy is not on a preset course, and ***the Committee*** *will proceed on a meeting-by-meeting basis to assess the economic outlook as well as the risks to the outlook, and it* ***will act as appropriate to sustain growth, a strong labor market, and a return of inflation to our symmetric 2 percent objective***.

…that suggested that the Fed will remain highly accommodative,…

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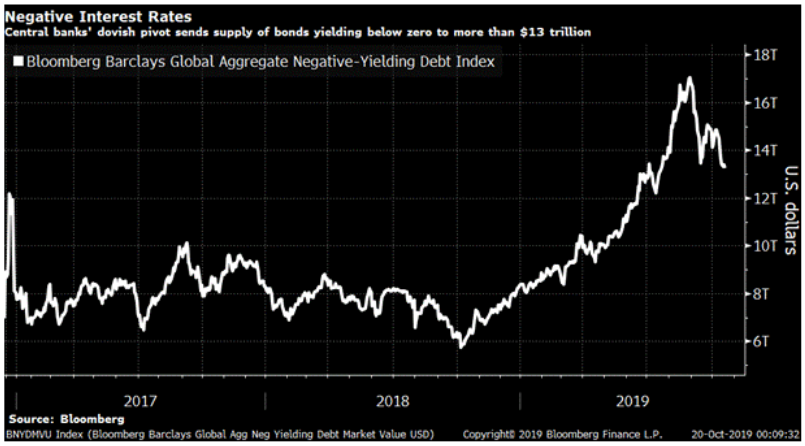
Low Interest Rates Headed Lower Still



Export — World Interest Rate Probability

United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 1.85

1) Overview — 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 10/18/2019 — Based on rate 1.75-2.00

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
10/30/2019	0.0%	88.4%	0.0%	0.0%	0.0%	88.4%	11.7%	1.62
12/11/2019	0.0%	92.4%	0.0%	0.0%	31.1%	61.4%	7.6%	1.53
01/29/2020	0.0%	94.8%	0.0%	9.6%	40.4%	44.8%	5.2%	1.45
03/18/2020	0.0%	95.7%	1.6%	14.8%	41.2%	38.1%	4.3%	1.41
04/29/2020	0.0%	96.3%	3.5%	18.5%	40.7%	33.3%	3.7%	1.38
06/10/2020	0.0%	96.7%	5.2%	21.1%	39.9%	29.9%	3.3%	1.35
07/29/2020	0.0%	97.0%	6.9%	23.0%	38.8%	27.1%	3.0%	1.32
09/16/2020	0.0%	97.3%	8.4%	24.6%	37.7%	24.8%	2.7%	1.30
11/05/2020	0.0%	97.6%	10.2%	26.0%	36.3%	22.4%	2.4%	1.26

With more than $13 trillion of negative-yielding debt globally, the current 1.75% to 2.0% target for the Federal Funds rate would seem to have room to fall. Indeed, the Fed Funds Futures now suggest that there is a 72.5% chance of two or more additional interest rate cuts from Jerome Powell & Co. over the next 13 months.

…especially given that another one of those global growth estimates that Mr. Clarida referenced was marked down last week by the International Monetary Fund,…

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THE PRUDENT SPECULATOR
IMF: GDP Growth Still the 2020 Forecast

WORLD ECONOMIC OUTLOOK: GLOBAL MANUFACTURING DOWNTURN, RISING TRADE BARRIERS

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from July 2019 WEO Update[1]		Difference from April 2019 WEO[1]	
	2018	2019	2020	2019	2020	2019	2020
World Output	**3.6**	**3.0**	**3.4**	**–0.2**	**–0.1**	**–0.3**	**–0.2**
Advanced Economies	**2.3**	**1.7**	**1.7**	**–0.2**	**0.0**	**–0.1**	**0.0**
United States	2.9	2.4	2.1	–0.2	0.2	0.1	0.2
Euro Area	1.9	1.2	1.4	–0.1	–0.2	–0.1	–0.1
Germany[2]	1.5	0.5	1.2	–0.2	–0.5	–0.3	–0.2
France	1.7	1.2	1.3	–0.1	–0.1	–0.1	–0.1
Italy	0.9	0.0	0.5	–0.1	–0.3	–0.1	–0.4
Spain	2.6	2.2	1.8	–0.1	–0.1	0.1	–0.1
Japan	0.8	0.9	0.5	0.0	0.1	–0.1	0.0
United Kingdom	1.4	1.2	1.4	–0.1	0.0	0.0	0.0
Canada	1.9	1.5	1.8	0.0	–0.1	0.0	–0.1
Other Advanced Economies[3]	2.6	1.6	2.0	–0.5	–0.4	–0.6	–0.5
Emerging Market and Developing Economies	**4.5**	**3.9**	**4.6**	**–0.2**	**–0.1**	**–0.5**	**–0.2**
Emerging and Developing Asia	6.4	5.9	6.0	–0.3	–0.2	–0.4	–0.3
China	6.6	6.1	5.8	–0.1	–0.2	–0.2	–0.3
India[4]	6.8	6.1	7.0	–0.9	–0.2	–1.2	–0.5
ASEAN-5[5]	5.2	4.8	4.9	–0.2	–0.2	–0.3	–0.3
Emerging and Developing Europe	3.1	1.8	2.5	0.6	0.4	0.6	0.2
Russia	2.3	1.1	1.9	–0.1	0.0	–0.5	0.2
Latin America and the Caribbean	1.0	0.2	1.8	–0.4	–0.5	–1.2	–0.6
Brazil	1.1	0.9	2.0	0.1	–0.4	–1.2	–0.5
Mexico	2.0	0.4	1.3	–0.5	–0.6	–1.2	–0.6
Middle East and Central Asia	1.9	0.9	2.9	–0.5	–0.3	–0.9	–0.4
Saudi Arabia	2.4	0.2	2.2	–1.7	–0.8	–1.6	0.1
Sub-Saharan Africa	3.2	3.2	3.6	–0.2	0.0	–0.3	–0.1
Nigeria	1.9	2.3	2.5	0.0	–0.1	0.2	0.0
South Africa	0.8	0.7	1.1	0.0	0.0	–0.5	–0.4
Memorandum							
European Union	2.2	1.5	1.6	–0.1	–0.2	–0.1	–0.1
Low-Income Developing Countries	5.0	5.0	5.1	0.1	0.0	0.0	0.0
Middle East and North Africa	1.1	0.1	2.7	–0.6	–0.4	–1.2	–0.5
World Growth Based on Market Exchange Rates	3.1	2.5	2.7	–0.2	–0.2	–0.2	–0.2

Source: International Monetary Fund October 2019

Stocks actually rallied on 10.15.19, even as the International Monetary Fund lowered global growth projections, mainly due to concerns about international trade. Of course, the IMF still expects worldwide GDP growth of 3.0% in 2019 and 3.4% in 2020, with respective U.S. economic expansion of 2.4% and 2.1% the forecast for those two years.

…which had the following to say last Tuesday:

After slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity, in particular, has weakened substantially, to levels not seen since the global financial crisis. Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade. A notable shift toward increased monetary policy accommodation—through both action and communication—has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth. That said, the outlook remains precarious.

Global growth is forecast at 3.0 percent for 2019, its lowest level since 2008–09 and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook. Growth is projected to pick up to 3.4 percent in 2020 (a 0.2 percentage point downward revision compared with April), reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. To forestall such an

outcome, policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed. To strengthen resilience, policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal.

Certainly, we respect that anything can happen economically speaking, but even if the Federal Reserve is wrong and a recession hits in the next couple of years, we would think that those who share our value-focused investment orientation would be comforted by what, on average, has happened in the equity markets before and after the 14 previous periods of economic contraction.

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We Invest in Stocks and Not in Economies

As the saying goes, economists (and the stock market) have predicted nine of the last five recessions, meaning that no one has a crystal ball to know in advance when two or more quarters of negative economic growth (i.e. a recession) might occur. Of course, the historical evidence pre- and post-recession shows that long-term-oriented investors should (on average) stay invested (in Value, quite clearly) no matter what.

U.S. Recession Commencement (per NBER) and Equity Returns
Fama French Value, S&P 500 & Fama French Growth

Year Prior FF Value TR	Year Prior S&P 500 TR	Year Prior FF Growth TR	Recession Start Date	1 Year FF Value TR	1 Year S&P 500 TR	1 Year FF Growth TR	3 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Growth TR	5 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Growth TR	10 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Growth TR
30.8%	51.9%	28.8%	August 1929	-32.0%	-32.6%	-40.1%	-64.9%	-73.5%	-71.7%	-61.4%	-71.1%	-42.1%	-47.7%	-58.0%	-25.3%
42.6%	18.2%	19.9%	May 1937	-55.8%	-39.3%	-45.3%	-55.1%	-33.2%	-26.4%	-44.3%	-32.5%	-29.8%	142.7%	53.7%	71.9%
54.4%	26.3%	34.6%	February 1945	42.2%	26.0%	37.1%	28.5%	12.0%	8.0%	75.7%	64.3%	50.9%	468.6%	379.2%	265.3%
4.6%	4.0%	-4.5%	November 1948	12.4%	19.2%	20.9%	108.9%	101.8%	89.0%	130.7%	145.2%	116.6%	584.7%	542.0%	438.4%
4.7%	3.1%	4.1%	July 1953	25.6%	31.9%	28.1%	118.0%	128.9%	98.0%	138.2%	136.5%	114.4%	381.9%	308.5%	252.6%
-0.4%	-1.2%	0.0%	August 1957	16.4%	10.0%	13.7%	55.0%	40.2%	58.3%	77.9%	55.1%	62.2%	418.4%	188.9%	238.1%
-6.4%	-2.4%	-1.5%	April 1960	29.0%	24.2%	25.0%	51.5%	41.7%	23.4%	131.0%	92.4%	60.0%	268.9%	107.7%	107.6%
-20.9%	-8.4%	-11.8%	December 1969	8.7%	3.9%	-13.7%	40.3%	41.4%	20.1%	-7.3%	-11.3%	-45.3%	267.9%	77.0%	59.6%
-19.4%	-15.2%	-32.5%	November 1973	-14.8%	-23.8%	-28.2%	77.1%	20.8%	19.5%	142.4%	23.7%	46.1%	719.9%	182.3%	275.6%
31.3%	20.6%	32.6%	January 1980	12.3%	19.5%	29.1%	80.4%	49.5%	58.0%	183.5%	102.4%	81.7%	480.7%	342.4%	194.7%
22.9%	13.0%	22.8%	July 1981	-0.8%	-13.3%	-21.7%	78.6%	34.0%	11.4%	217.1%	127.9%	75.1%	408.6%	343.4%	180.9%
-6.9%	6.5%	4.8%	July 1990	9.9%	12.7%	14.5%	76.0%	38.2%	34.1%	129.3%	83.2%	78.0%	424.9%	407.2%	320.9%
17.0%	-21.7%	-34.0%	March 2001	14.6%	0.2%	3.9%	33.8%	1.9%	11.7%	83.4%	21.4%	33.8%	96.0%	38.3%	64.8%
-5.7%	9.0%	9.1%	December 2007	-36.2%	-40.4%	-37.0%	-6.6%	-13.0%	3.9%	5.7%	5.3%	18.5%	119.5%	117.4%	154.6%
10.6%	**7.4%**	**5.2%**	**Averages**	**2.3%**	**-0.1%**	**-1.0%**	**44.4%**	**27.9%**	**24.1%**	**85.8%**	**53.0%**	**44.3%**	**338.2%**	**216.4%**	**185.7%**

As of 8.30.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

That does not mean that stocks will rise no matter what events occur here at home or around the world, but there have been far more worrisome obstacles overcome through the years than today's trade battle with China, Brexit drama, Trump impeachment inquiry and lackluster domestic GDP growth.

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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%	34303%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	19808%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	17792%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	6908%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	7561%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5483%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4190%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3858%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3140%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4167%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2738%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2940%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2400%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1744%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1120%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1228%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	844%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	693%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	625%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	574%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	553%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	491%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	241%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	211%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	143%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	122%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	209%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	226%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	174%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	149%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	341%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**4032%**

As of 10.18.19. 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.

Stock Updates

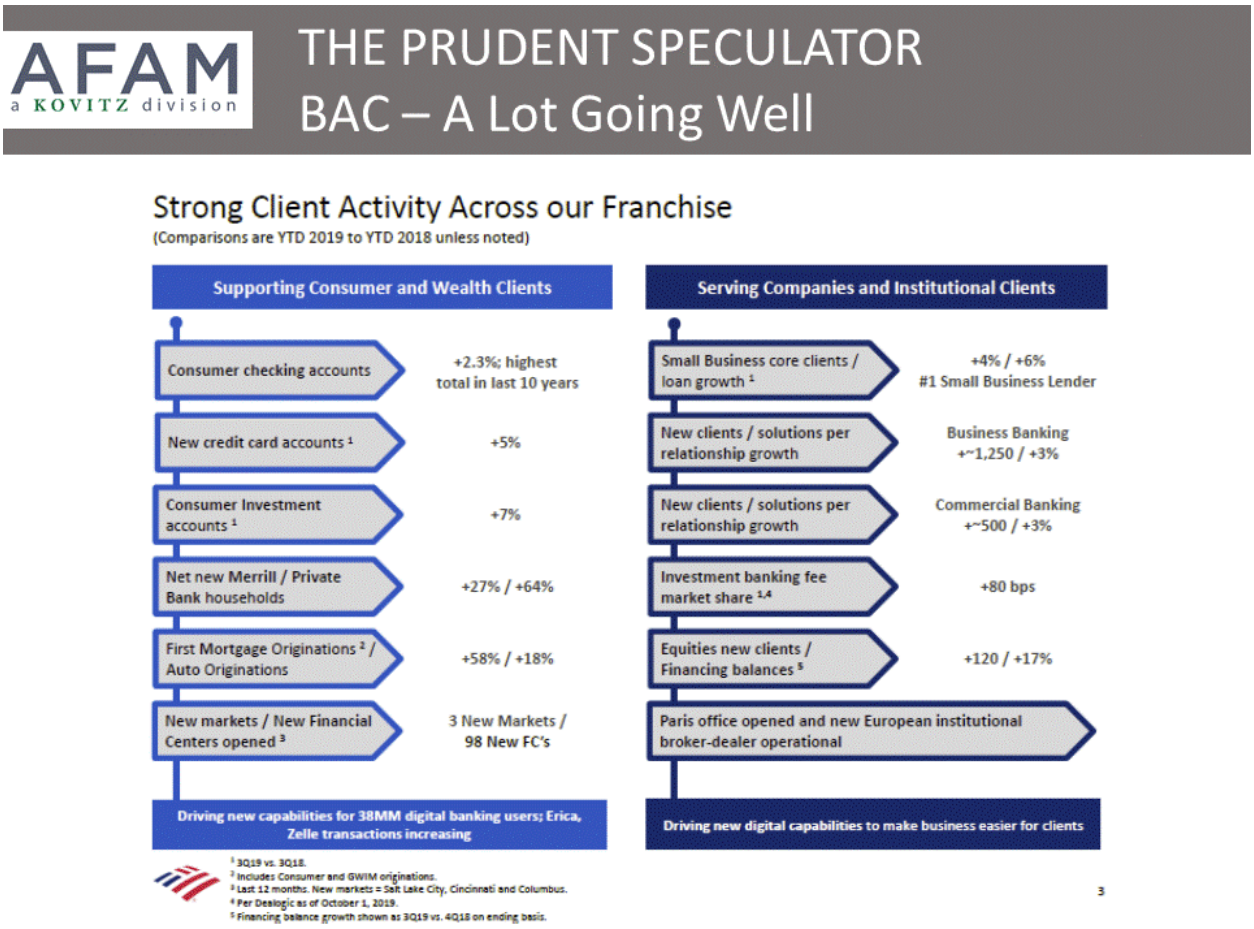
Jason Clark offers updates on a baker's dozen of our companies that were out with Q3 numbers this past week, the news of sufficient importance to trigger a review of their Target Price. Keep in mind that all stocks are rated as "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/.

Diversified financial firm **Bank of America** (BAC – $30.35) reported another good quarter despite the tough interest rate environment. Adjusted Q3 EPS came in at $0.75, versus consensus estimates of $0.69. Year-over-year growth of this metric jumped 12.5%. Revenue also came in above forecasts, totaling $22.97 billion, versus expectations of $22.85 billion. The quarter benefited from a 4.6% increase in total loan growth. Countering the perception that companies are holding back because of uncertainty about the economy and trade wars, BAC's U.S. small-business lending grew 7% to $15.2 billion. The bank also announced that it realized 11% growth in equipment financing. The lower rate environment did present challenges as versus the same period last year, revenue slightly decreased, however, management was able to keep expenses in check.

CEO Brian Moynihan commented, “Our teammates delivered another strong quarter of earnings and returns for shareholders. In a moderately growing economy, we focused on driving those things that are controllable. We made continued strong investments in our capabilities to serve customers, more relationship management teammates, more and refurbished branches and offices, and more digital capabilities, all while core expenses are flat. Our client activity, the expansion of our client base, and our ability to gain market share across most of our businesses in the quarter, all reflect responsible growth.”

CFO Paul Donofrio added, “We remained disciplined in managing expenses and responsible in our approach to underwriting, which led to continued low costs and strong asset quality. In the quarter, we returned more than $9 billion to our shareholders.”

Credit metrics were stable during the third quarter as loan charge-offs and nonperforming loans decreased slightly on a sequential basis. The bank ended the quarter with $2.4 trillion in assets and almost $1.4 trillion in consumer deposits, the latter the largest tally of any bank in the U.S.



We continue to be fans of BAC and see it as one of our core financial holdings. While the bank is still playing catch-up from its issues coming out of the financial crisis, we think the company has meaningful ability to increase earnings and efficiency. The current dividend leaves the stock with a 2.4% yield. 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 10.3 times NTM estimated EPS. Our Target Price has been inched up to $43.

Banking giant **JPMorgan Chase** (JPM – $120.56) posted solid Q3 financial results. Despite the strain of lower interest rates, JPM's adjusted EPS came in at $2.68, versus the consensus analyst estimate of $2.46. Countering weakness in capital markets and headwinds in loan origination, JPM saw strength in its consumer bank (with gains in cards, merchant services and auto loans), while producing a 15% return on equity and ending the quarter with a Basel III common equity Tier 1 capital ratio of 12.3%. The Investment Bank retained its #1 ranking for global investment banking fees.

CEO Jamie Dimon commented, "JPMorgan Chase delivered record revenue this quarter, demonstrating broad-based strength and the resilience of our business model despite a more challenging interest rate backdrop. In Consumer & Community Banking, we had strong deposit and client investment asset growth. Our consumer lending businesses benefited from our continued investments and a favorable environment for borrowers, which helped drive healthy volumes in Home Lending and Auto and strong loan growth in Card."

Mr. Dimon added, "We had record third quarter IB fees with particularly strong performance in DCM and ECM, and year-to-date we maintained our #1 global ranking with share gains across products and regions. Markets performance was solid, reflecting improved client activity – particularly in Fixed Income. Commercial Banking turned in a solid performance with continued momentum in investment banking and treasury services. And in Asset & Wealth Management, both AUM and client assets were a record helped by strong net inflows into long-term and liquidity products."

He concluded, "In the U.S. economy, GDP growth has slowed slightly. The consumer remains healthy with growth in wages and spending, combined with strong balance sheets and low unemployment levels. This is being offset by weakening business sentiment and capital expenditures mostly driven by increasingly complex geopolitical risks, including tensions in global trade. Regardless of the operating environment, JPMorgan Chase will continue to serve our customers, clients and communities globally, while investing in innovation, talent, technology, security and controls."

We think that JPM continues to execute well and we view the shares as a core financial holding. We remain quite fond of the fortress balance sheet and the overall business model under Mr. Dimon's guidance. JPM shares are currently trading for just 11.7 times NTM projections, while carrying a dividend yield of 3.0%. With 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 $142.

KeyCorp (KEY – $17.77) reported Q3 earnings per share of $0.48, just above analyst estimates. Declining interest rates, some signs of reduced economic activity in the Ohio-based bank's markets and a focus on consumer health has tempered expectations, even as the company continues to thin its expense base. CEO Beth Mooney remarked, "Our business model and

interest rate hedging also positions us well as we move through the different business cycles and rate environments. And expense management also remains a priority as we continue to identify opportunities to further improve efficiency."

The firm grew loans and deposits by 4% year over year driven by new relationships in commercial banking and activity within residential mortgage lending and Laurel Road, a digital-lending subsidiary KeyCorp acquired earlier this year. Noninterest income, which has become increasingly important for banks as low rates compress net interest margins, grew 12.4% while noninterest expense declined 3.4% from Q3 a year ago.

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KEY – Diversified Sources of Income

Noninterest Income

Noninterest Income

$ in millions up / (down)	3Q19	vs. 3Q18	vs. 2Q19
Trust and investment services income	$ 118	$ 1	$ (4)
Investment banking and debt placement fees	176	10	13
Service charges on deposit accounts	86	1	3
Operating lease income and other leasing gains	42	7	(2)
Corporate services income	63	11	10
Cards and payments income	69	-	(4)
Corporate-owned life insurance	32	(2)	(1)
Consumer mortgage income	14	5	4
Mortgage servicing fees	23	4	(1)
Other income	27	4	10
Total noninterest income	**$ 650**	**$ 41**	**$ 28**

Highlights

vs. Prior Year

- **Noninterest income up $41 MM (+7%) from 3Q18, reflecting continued momentum across fee-based businesses**
  - Record third quarter of investment banking and debt placement fees (+$10 MM)
  - Corporate services income (+$11 MM); driven by higher derivatives income
  - Strength in mortgage: consumer mortgage income (+$5 MM) and mortgage servicing fees (+$4 MM)

vs. Prior Quarter

- **Noninterest income up $28 MM (+5%) from 2Q19**
  - Investment banking and debt placement fees increased $13 MM to reach record third quarter
  - Corporate services income (+$10 MM) due to higher derivatives income
  - Investments in mortgage business drive consumer mortgage income (+$4 MM)

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We also note the announcement in September that Ms. Mooney will be retiring in May of next year. Current COO Chris Gorman, a 21-year veteran of KeyCorp, will fill the role. In her 8-year tenure as CEO, Ms. Mooney has focused intently on cutting costs and improving operating efficiency, while transforming the bank through acquisitions of First Niagara, HelloWallet, and most recently Laurel Road.

While the stock has traded virtually flat over the past two years, management has committed to steadily raising its dividend payout to 50% of earnings, which have been rising over the period. We also like efforts management has taken of late to hedge rate risk and increase operational efficiency. Shares have become more attractively priced, as they trade for less than 10 times

NTM expected earnings, a multiple last seen in 2016, and another dividend increase of 9% last quarter has pushed the yield to 4.2%. Our Target Price for KEY is $25.

Investment banking and brokerage firm **Goldman Sachs Group** (GS – $206.52) posted Q3 adjusted earnings per share that fell short of consensus analyst estimates ($4.79 versus $4.86). However, revenue for the period slightly outpaced forecasts ($8.32 billion vs. $8.30 billion). While the company had a number of positives in the quarter, Goldman said it endured losses of $267 million from public equities in the period, primarily from Uber, Avantor and Tradeweb Markets. The hit led to a large drop of 40% in the bank's equity securities revenue in the period to $662 million. GS also announced that it wrote down its investment in private company WeWork by $80 million, but said that the firm's current carrying value on WeWork is about $70 million, which is still above cost.

Costs and investments in new business ventures also impacted the quarter. Year-to-date, the company said that it has spent $450 million on organic projects, such as its Marcus retail bank, a credit card with Apple and a transaction banking initiative. While a number of its efforts to evolve won't materially impact the bottom line for a while, we are constructive on these investments as well as steps to further its reach in wealth management with a couple of freshly closed acquisitions.

CEO Dave Solomon remarked, "Our results through the third quarter reflect the underlying strength of our global client franchise and its ability to produce solid results in the context of a mixed operating environment. We continue to execute on our strategic priorities, including investing in important growth opportunities in our existing and new businesses and in delivering for our clients in the most efficient and effective manner possible. We believe that this focus will best position the firm to generate long-term, industry-leading returns for our shareholders."

We continue to be long-term fans of GS and believe the company can achieve stronger revenue growth, operating leverage and a potential higher multiple than the current forward P/E of 8.8. The ultimate goal of Goldman's evolution is to change 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. Our Target Price now stands at $285.

Southeastern banks and merger partners **BB&T Corp** (BBT – $52.67) and **SunTrust Banks** (STI – $67.89) each released quarterly financial results last week. The union, which will form a new company to be called Truist, is on track to close later this year or early in 2020. BB&T CEO Kelly S. King stated, "We continue to make significant progress laying the groundwork for our exciting merger of equals with SunTrust. We are very pleased the shareholders of both companies strongly supported the merger at their respective meetings earlier this quarter. Importantly, we have named approximately 75% of leadership roles for the Truist organization, so we are well prepared as we look forward to closing the merger."

Merger of Equals Update

Highly Synergistic; Financially Compelling; Transformative

3Q19 Accomplishments

- Executive Management (EM) continues to meet weekly to guide organizational design and oversee integration process
- July 1: Named next 2 levels of management
- July 10: Received regulatory approval from North Carolina Commissioner of Banks
- July 16: Announced community benefits plan
- July 24: Held hearing with U.S. House Committee on Financial Services
- July 30: Received shareholder approvals for merger and name
- September 5: Named additional levels of management
  - ~8,000 teammates and associates have accepted Truist positions; ~ 75% of Truist leadership roles established
- September: Finalized vast majority of key technology ecosystem decisions
- September: All ~100 merger workstreams passed legal day 1 readiness testing exercise

Next Steps

- Finalize divestiture process with Department of Justice
- Receipt of remaining regulatory approvals
- First 100 Days as Truist
  - Present proposed Truist governance and committee structures to Board for approval (legal day 1)
  - Introduce Truist's purpose, mission, and values and continue building culture with all teammates
  - Finalize organizational design
  - Continue brand development process
  - Begin executing cost and revenue synergy opportunities (action plans in place)

Continued confidence in achieving ~$1.6bn of cost synergies (net of investments)

Looking at the latest results, BB&T said its adjusted EPS for Q3 was $1.07, outpacing expectations of $1.03. Mr. King explained, "We are pleased to report strong results for the third quarter, with improved adjusted earnings driven by stronger revenues and lower credit costs. While average loans held for investment decreased 4.8%, this result was due to our strategic decision to sell approximately $4 billion in mortgage loans during the quarter. Excluding this sale, our company generated robust loan growth of 6.5% on an annualized basis compared with last quarter."

He added, "In addition, we enjoyed 2.5% taxable-equivalent revenue growth compared with the third quarter last year led by strong results from our fee income-generating businesses, including insurance, mortgage banking and investment banking and brokerage, as well as a resilient net interest margin in this challenging rate environment. This was due in part to lower deposit costs, which peaked last quarter."

SunTrust said its adjusted EPS for Q3 was $1.40, which was slightly below expectations of $1.41. "We delivered solid third quarter results, marked by continued loan growth, improved deposit growth, diverse fee income, and strong credit quality. Our underlying strategic progress is strong, evidenced by 8% year-over-year growth in both loans and noninterest income, providing us with good momentum heading into our proposed merger of equals with BB&T," said STI CEO William H. Rogers, Jr. "I am confident that when SunTrust and BB&T come

together to create Truist, we can deliver industry leading profitability, better capabilities for our clients, and enhanced benefits for both our teammates and our communities."

We think the combined company will take on BB&T's relatively conservative loan underwriting and believe the combo can continue to generate modest loan growth, relatively lower rate sensitivity and fee income growth on increased capital markets activity. STI shares yield 3.3% and trade for 12.7 times NTM earnings expectations. As a standalone, our Target Price for STI is $81. BBT yields 3.4% and trades at 12.4 times NTM EPS forecasts. Our Target Price for BBT is $68.

Shares of consumer financial firm **Synchrony Financial** (SYF – $34.29) gained almost 4% last week as the company reported Q3 financial results that exceeded investor expectations. Synchrony said it had adjusted earnings per share of $1.22, versus estimates of $1.13. SYF had total revenue of $3.46 billion, edging the consensus forecast of $3.43 billion. The company continues to deal with the loss of the Walmart loan portfolio, as during Q3, total card loans declined 5% from the previous year. However, excluding the loss of the Walmart portfolio, total loans grew 6%.

CEO Margaret Keane commented, "We continue to deliver strong results as we develop innovative and seamless digital consumer experiences driven by our technology and data investments. These capabilities have helped us grow organically, enabling the extension of key partnerships, while also helping us win new ones with fast-growing, digital-first partners. Our growth is supported by expanded acceptance and usage in our Home, Auto and CareCredit networks, and is funded through substantial growth in our direct-to-consumer deposit platform. Our focus is on executing a capital allocation strategy that drives strong growth at attractive risk adjusted returns, while maintaining a strong balance sheet and the ability to return capital to shareholders."

Ms. Keane's comment concerning maintaining a strong balance sheet is always music to our ears, as total liquidity (liquid assets and undrawn credit facilities) was $21.7 billion, or 20.5% of total assets, and its estimated fully phased-in Common Equity Tier 1 ratio under Basel III was 14.5%. It is also important to consider that loans 30+ days past due as a percentage of total period-end loan receivables were 4.47%, compared to 4.59% in the same period last year. While net charge-offs as a percentage of total average loan receivables were up to 5.35%, compared to 4.97% last year, excluding the newer PayPal Credit program and the winding down Walmart portfolio, the rate decreased approximately 20 basis points compared to last year. Additionally, allowance for loan losses as a percentage of total period-end loan receivables was 6.74%, compared to 7.11% in Q3 2018.

SYF shares trade at just 7.8 times NTM adjusted EPS consensus estimates and yield 2.6%. The company continues to execute well and we believe that the 46% increase in share price 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 $54.

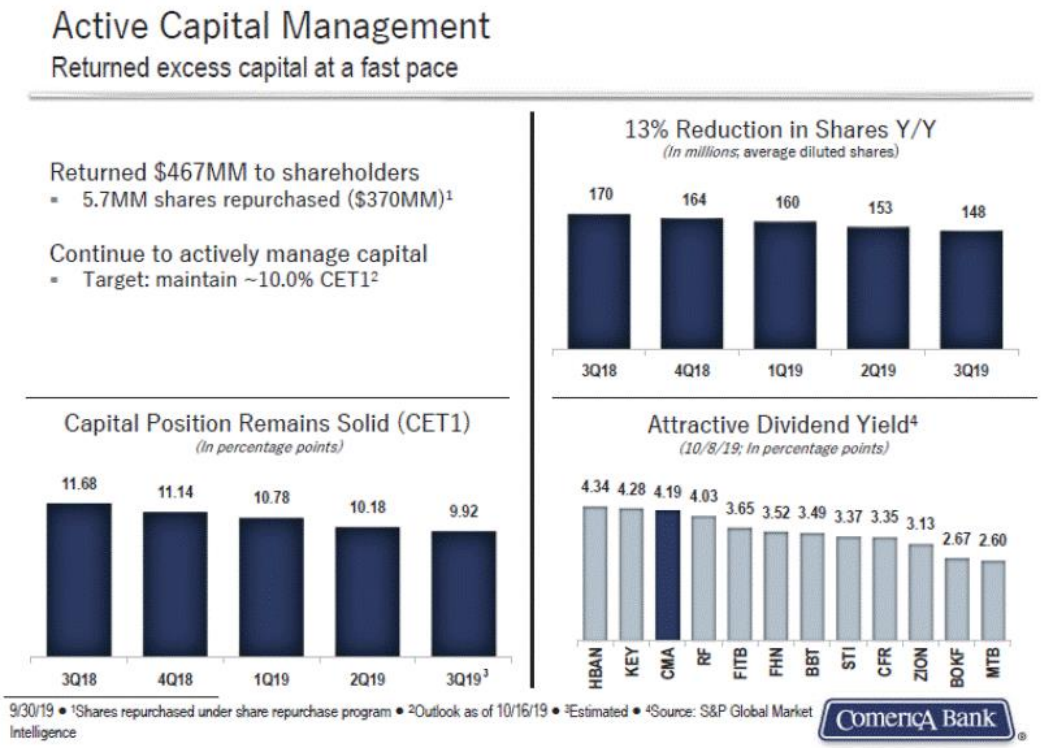
Shares of **Comerica** (CMA – $65.45) ended the week flat, despite suffering a handful of downgrades following its Q3 2019 financial results release. The financial services company

reported top- and bottom-line results that came in a bit above the consensus analyst estimates. Adjusted EPS for the quarter was $1.93, versus expectations of $1.90, while revenue of $842 million came in slightly better than forecasts of $834 million.

Comerica reported an 8% decline in net income after the bank charged off select loans within its energy portfolio. Despite this decline in net income, earnings per share increased by approximately 1% due to share repurchases and a strong return on equity. Net interest income fell 2% year over year due to lower interest rates and management has revised its net interest income growth outlook to a range of 0% to negative 1% from a positive 2% forecast. Noninterest income grew 9.4% as a result of higher card fees accompanied by strong syndication fees and fiduciary income. CMA continues to see its funding costs under pressure as lower rates, and the prospects for lower rates for longer, take a toll.

CMA CEO Curtis C. Farmer explained, “Throughout our 170-year history, we have managed through many different economic, credit and interest rate cycles. Our third quarter results demonstrate our ability to drive a strong return on equity of 16% and a return on assets of 1.6%, despite recent declines in interest rates. Broad-based fee income growth, solid credit quality, the benefit of discrete tax adjustments and continued active capital management were positive contributors to our performance. In addition, our careful cost control helped keep our efficiency ratio low at under 52%. We remain focused on building relationships within our diverse footprint and maintaining our credit and expense discipline in order to continue to produce strong performance metrics.”

CMA – Shareholder Friendly



While we know that CMA continues to face operational headwinds as the potential for another interest rate cut by the Federal Reserve remains quite likely, we still 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 9.3 times NTM adjusted EPS estimates and yields 4.1%. That said, with the majority of its loan portfolio made up of adjustable rates loans and the current downward pressure on the overall domestic rate environment, we have pared our Target Price to $101.

Despite writing down $12.7 billion in assets during Q3, oilfield services giant **Schlumberger Ltd** (SLB – $32.31) reported operating earnings that were better than investors were expecting. SLB said it earned $0.43 per share versus the consensus estimate of $0.40. Revenue for the period of $8.54 billion came in slightly above average forecasts of $8.50 billion.

CEO Olivier Le Peuch provided a lot of detail into overall Q3 performance and positioning that we think is worth sharing

We ended the third quarter with revenue of $8.5 billion, a 3% sequential increase while pretax segment operating income of $1.1 billion rose 13%. I am pleased with the results and proud of the team's performance. Sustained international activity drove overall growth despite mixed results in North America. The North America business saw strong offshore sales with minimal

growth on land due to slowing activity and further pricing weakness. Adjusted EPS, was 23% higher than the second quarter.

Sequential international growth was led by the Europe/CIS/Africa area, where revenue increased 9% sequentially driven by peak summer activity in the Northern Hemisphere as well as the start of new projects in Africa. International revenue was also driven by double-digit growth in Asia. Latin America revenue declined 9% sequentially on lower activity in Argentina and Mexico. Excluding Cameron, third-quarter international revenue increased 8% year-over-year, remaining in line with our expectations of high single-digit international growth. As we enter the fourth quarter, international activity will be affected by the usual winter slowdown, particularly in the Northern Hemisphere.

In North America, offshore revenue grew sequentially due to higher WesternGeco® multiclient seismic license sales. Land revenue was slightly higher, as a modest increase in OneStim® activity was offset by softer pricing while land drilling revenue was essentially flat despite the lower rig count. As we exited the quarter, OneStim activity decelerated as frac programs were either deferred or cancelled due to customer budget and cash flow constraints.

By business segment, third-quarter sequential growth was led by a 6% increase in revenue in Reservoir Characterization due to peak summer campaigns, particularly in the Northern Hemisphere. Cameron revenue increased 3% sequentially from higher OneSubsea®, Surface Systems, and Drilling Systems sales—primarily in the international markets. Drilling and Production revenue each increased 2% sequentially on international growth and decelerating activity in North America land.

This quarter's results reflected a macro environment of slowing production growth rate in North America land as operators maintained capital discipline, reducing drilling and frac activity. Our year-to-date high single-digit international revenue growth continues to be underpinned by international investment levels. Market uncertainty, however, is weighing on future oil demand outlook in a climate where trade concerns are seen as challenging global economic growth.

The third quarter results reflect a $12.7 billion pretax charge driven by market conditions. This charge is almost entirely noncash and primarily relates to goodwill, intangible assets, and fixed assets.

Last month, we presented four key elements of our new strategy: leading and driving digital transformation; developing fit-for-basin solutions; capturing value from the performance impact for our customers; and fostering capital stewardship. The latter involves more stringent capex allocation and a strategic review of our portfolio—particularly in North America—through the lens of fit-for-basin attributes, customer performance, and return on investment.

We are already off to a good start on digital. We presented our vision of the future E&P industry to 800 customers and partners at the highly successful SIS Global Forum 2019. We are committed to an open digital environment that unlocks customer performance.

As we move forward, our vision is to define and drive high performance. Simply put, we want to be the performance partner of choice for the benefit of our customers and our industry. Underpinned by the elements of our strategy, Schlumberger is favorably positioned to achieve superior margin expansion, increased return on capital, and growth in free cash flow.

While the last few years have been a struggle for SLB's stock, to say the least, we believe better days are ahead and think its global income diversification is a differentiating positive. We also see Schlumberger as the clear technology leader in the space, with an important reputation for consistent execution. We are fond of the firm's ability to generate solid free cash flow and the handsome 6.2% dividend yield the shares currently offer. That said, the operational road in global energy is still quite bumpy, thus we have cut our Target Price to $71.

PNC Financial Services (PNC – $143.52) reported good Q3 earnings, and its balance sheet and revenue grew despite the tough interest rate environment. For the quarter, PNC said its adjusted EPS was $2.94, versus consensus analyst estimates of $2.80. The company's geographic expansion has been positive, helping to contribute to its 6% growth in loans. Commercial lending led the way with a 7% year over year increase, primarily due to the real estate business and corporate banking segment. PNC also grew deposits, while driving a slim reduction in the cost of interest-bearing deposits. Despite this, net interest margin fell, largely due to lower interest rates on floating rate loans. PNC's efficiency ratio came in at 58%, an improvement from 59% in Q2.

CEO Bill Demchak commented, "PNC delivered excellent results in the third quarter. Our loan growth was strong in both commercial and consumer average loans and we saw good deposit inflows and customer growth including from our national strategies. Net interest income and fee income increased and we managed expenses well even as we continued to make investments. We are pleased with our performance and expect that continued execution of our strategies will drive differentiated growth across our franchise and generate long-term value for our shareholders."

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
PNC – Solid Quarter

Third Quarter 2019 Highlights

PNC

- Grew loans and deposits
- Grew total revenue
- Generated positive operating leverage and improved efficiency
- Maintained strong credit quality
- Returned significant capital to shareholders
- Continued to invest in our strategic priorities to create long-term shareholder value

Net Income
$1.4 billion

Diluted Earnings Per Share
$2.94

Return on Average Assets
1.36%

Return on Common Equity
11.56%

Return on Tangible Common Equity
14.55%

– Return on Tangible Common Equity (Non-GAAP) – See Reconciliation in Appendix.

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Despite the historically low interest rate environment and stiff competition for deposits, PNC has found ways to continue to show respectable loan and deposit growth with strong overall credit quality. We think the firm's focus on organic loan growth is an important performance driver and we remain pleased with PNC's ability to control costs and drive fee income. We support management's continued effort to expand into new markets, and we think the asset management business will add to the bottom line. Additionally, we note that PNC owns 22% of Blackrock, the largest asset management firm in the world. PNC currently trades for 12.5 times NTM earnings and yields 3.2%. Our Target Price has been adjusted upward to $170.

Global provider of computer solutions and advanced technologies, **International Business Machines** (IBM – $134.09) earned $2.68 in Q3 vs. the $2.67 consensus estimate. Revenue came in at $18.03 billion, nearly 1% below forecasts of $18.22 billion. The Cloud and Cognitive Software segment increased sales by 6.4% year over year, while the Global Technology Services, Systems and Global Financing segments declined by 5.6%, 14.7%, and 11.7%, respectively.

Consistent with CEO Ginni Rometty's vision for the future of "Big Blue" as the leader in hybrid, multi-cloud environments, IBM closed its acquisition of Red Hat in July. CFO Jim Kavanaugh detailed on the company's conference call, "Red Hat is at the center of [hybrid cloud] with the #1 Linux operating system, RHEL, and the leading hybrid cloud platform, OpenShift. When we

bring these together with IBM's enterprise incumbency, scale and expertise, we're ideally positioned to lead in the significant hybrid cloud opportunity. We've invested to bring new innovations to market, leveraging the technology architecture of Linux, containers and Kubernetes. We have standardized on Red Hat OpenShift as our hybrid cloud platform, and we've modernized our software portfolio so that it can run on all private and public clouds. We've announced OpenShift on IBM Cloud and on IBM Z, and we've introduced consulting and technology services for Red Hat to capitalize on our expertise in digital reinventions and our leadership position in managing mission-critical workloads."

Normalized for comparability, Red Hat's revenue was up 20% in the quarter. IBM intends to infuse its intimate client knowledge with Red Hat's capabilities to improve and broaden its hybrid cloud offerings. Despite the promising start to its Red Hat ownership, IBM shares skidded 6% last this week, as Wall Street's patience has worn thin for a revenue turnaround, while the company suspended its stock repurchase program in order to pay down acquisition-related debt.

Certainly, we would like to see top-line growth resume, so we have cut our Target Price for IBM to $177. Of course, the shares remain very inexpensive, trading for around 10 times NTM earnings expectations. Further, we think the company is moving in the right direction in deleveraging the balance sheet by paying down its debt, shedding its global financing business and focusing on cloud computing. While our patience has sorely been tested, we are still happy to collect a juicy dividend, as the yield is 4.8% at the current price, which is well covered by the firm's free cash flow.

Shares of **Johnson & Johnson** (JNJ – $127.70) started the week off strong, following the health care concern reporting a good Q3, despite the numerous litigation clouds shadowing the company. For the quarter, JNJ reported adjusted EPS of $2.12, compared to forecasts looking for $2.01. Revenue came in at $20.73 billion (vs. $20.08 billion). The quarter was led by outperformance of pharma and a positive pick up in medical devices.

"Our third-quarter results represent strong performance, driven by competitive underlying growth in Pharmaceuticals and Medical Devices, as well as continued optimization in our Consumer business," said CEO Alex Gorsky. "As we look ahead, we remain confident in the strength of our broad-based business model, which is fueled by our disciplined portfolio management, focus on transformational innovation and dedicated employees around the world who position us for success today and well into the future."

Of course, things went south on Friday after the company announced a voluntary recall of a single lot of baby powder after a trace amount of asbestos was found in a bottle that was purchased online. With numerous plaintiffs claiming that J&J's talc powder caused them to come down with cancer, potentially due to asbestos contamination, this latest recall adds fuel to the legal fire. That said, it is important in this instance to point out that the amount of asbestos found (less than 0.00002%) in a test by the U.S. Food and Drug Administration is extremely low, and there are plenty of variables that cannot be ruled out, including sample testing errors or a counterfeit product. Like many, we think J&J is rightly being very cautious in recalling the product. While J&J's product safety tests, the FDA, clinical studies and the Cosmetic Ingredient Review Expert Panel have all said/shown that talc is safe, and the National Cancer Institute's Physician Data Query Editorial Board concluded that perineal talc exposure doesn't increase the risk of ovarian cancer, the recall definitely increases public uncertainty.

Though we still like JNJ overall and view the company as uniquely situated with unmatched depth and breadth in growing global health care markets, and believe that there is solid potential for a number of its compounds in clinical trials, another dose of headline risk has increased the pressure on our patience. For the time being, we are still holding tight to our shares, but we are always weighing the risk/reward profile of the stocks we own, versus other names that we might want to buy. We have decided to cut our Target Price to $144, but the high-quality name still carries a dividend yield of 3.0%.

Despite relatively small misses on the top and bottom lines for Q3, shares of staffing solutions group **ManpowerGroup** (MAN – $86.65) ended the week up more than 1.5%. For the three-month period, MAN posted earnings per share of $1.92, versus the consensus analyst estimate of $1.93. MAN had total revenue of $5.25 billion, versus the $5.33 billion forecast. Q3 results had both high and low points, as though the firm saw a return to positive growth in North America, weakening economic conditions in Europe (including the important French market) drove the slight revenue and EPS misses. MAN also announced that it repurchased 610,000 of its own shares in the open market during the quarter.

Chairman and CEO Jonas Prising said, "The global economic environment continues to be uncertain, leading to uneven market conditions as economic growth slows but labor markets remain tight and skills shortages high. This was evident in our third quarter results and despite headwinds in Europe, many of our markets achieved good profitable growth, with the US, the UK, Japan, Norway, Spain and Canada leading the way…We anticipate diluted earnings per share in the fourth quarter will be between $2.00 and $2.08, which includes an estimated unfavorable currency impact of 7 cents."

Despite the ongoing headwinds across Europe, 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. Even with the recent pressures, shares are still up better than 33% this year, and we think they have more upside. While not as discounted as they used to be, the stock still represents a compelling value, in our view, with metrics including a 11.4 times forward P/E ratio, a double-digit free cash flow yield and a current dividend yield of 2.5%. Our Target Price now resides at $135.