Market Commentary Monday, November 25, 2019

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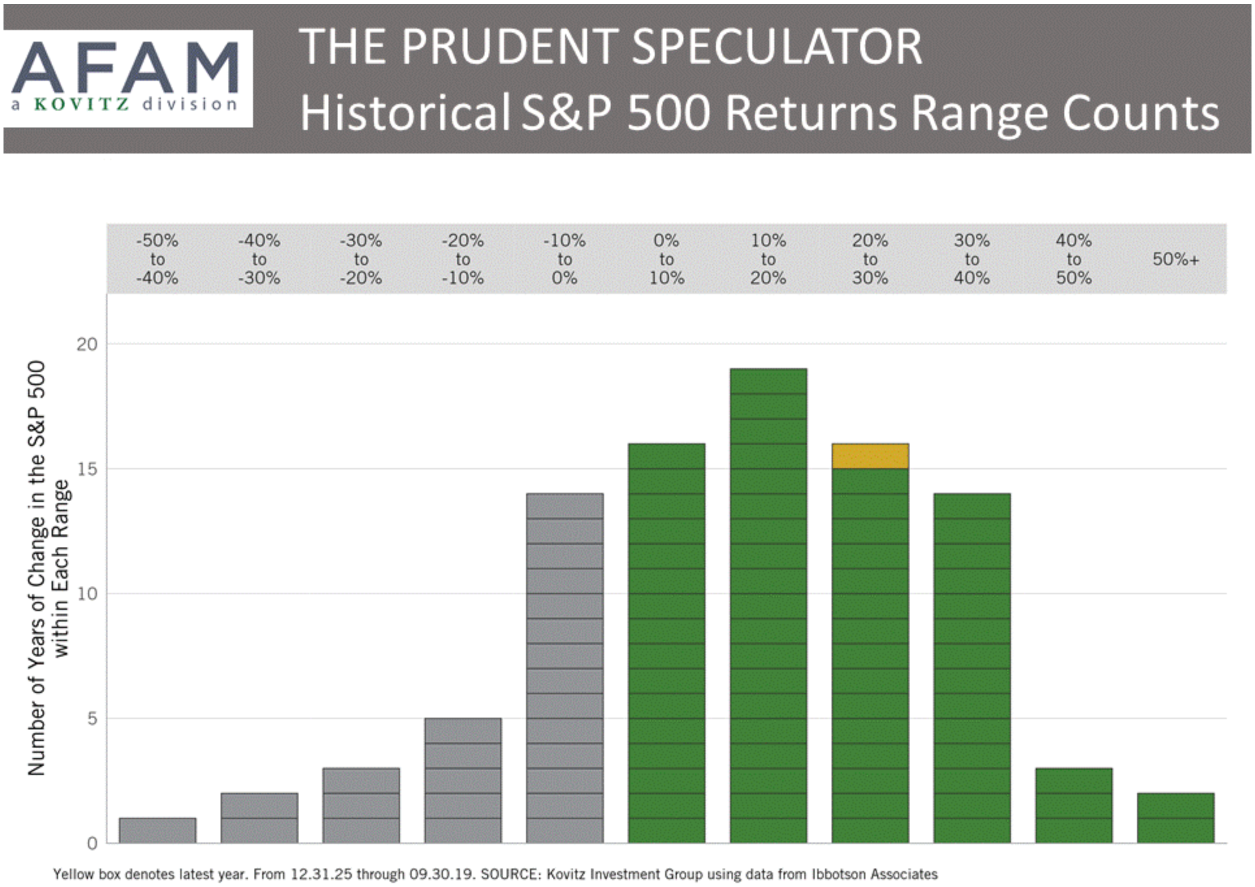
EXECUTIVE SUMMARY

Historical Perspective – S&P Return Groupings
Econ News – Decent Numbers for IHS Markit, Philly Fed and Housing
Leading Economic Indicators – Projecting Modest GDP Growth
OECD – Estimating 2.9% Global and 2.0% U.S. Growth for 2020
Reasons to Like Stocks – Interest Rates, Stock Buybacks and Calendar
Sentiment – Still Not a Lot of Optimism
Stock Updates – WSM, TGT, SFL, LOW, SJM, MDT, KSS & FL

Market Review

All of us at *The Prudent Speculator* would like to wish our readers a Happy Thanksgiving. Certainly, there is much to be thankful for this year in the equity markets, with the major market averages up more than 20%. Of course, while the year isn't over and returns thus far in 2019 might appear grand in magnitude, market history shows that the S&P 500 has done much better, gaining more than 30%, for 19 separate years just since 1925!



To be sure, we were reminded again last week that equities move in both directions, with renewed concerns about the status of trade negotiations with China sending stocks, especially those of the deep Value variety, south for much of the week, before a modest rebound took place on Friday. Interestingly, given that many remain worried that a U.S. recession is around the corner,…

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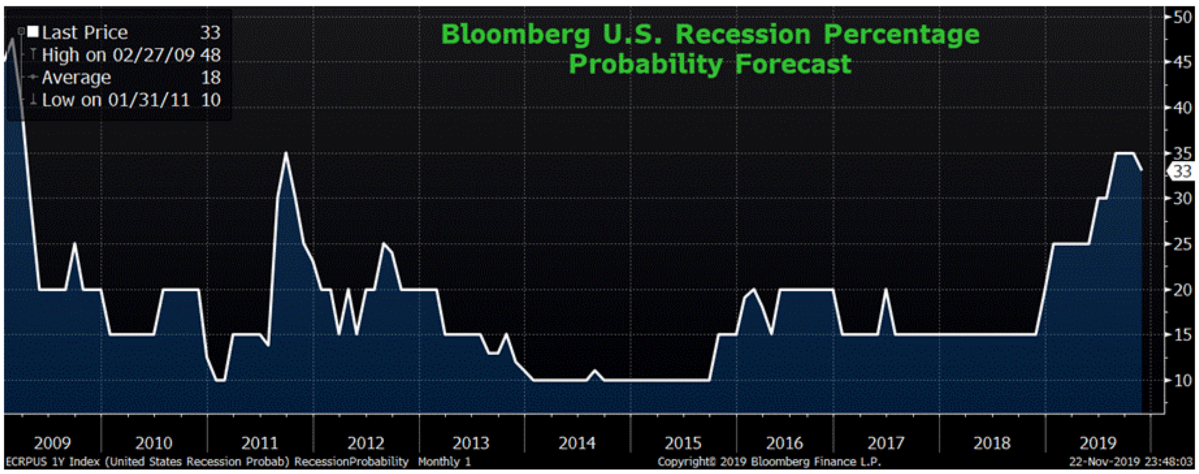
Recession Probability: Now at 33%

While it is clear that domestic and global economic growth is not as robust as most would like, and recent domestic data points have not exactly been robust, the probability of recession has just dipped a couple of points to 33%. To be sure, this is near highs last seen in the fall of 2011…but that proved to be a fantastic time to buy equities, as the S&P 500 returned 30.2% over the ensuing 12 months.



…one of the catalysts for the late-week bounce was a better-than-expected reading on the IHS Markit Purchasing Managers' Index for the U.S. The gauge of domestic business activity rose to a four-month high of 51.9 in November, up from 50.9 in October, with IHS Markit Chief Business Economist Chris Williamson stating, "The worst of the economy's recent soft patch may be behind us."

No doubt, the strength of the U.S. economy remains a big question mark, with manufacturing not exactly booming,…

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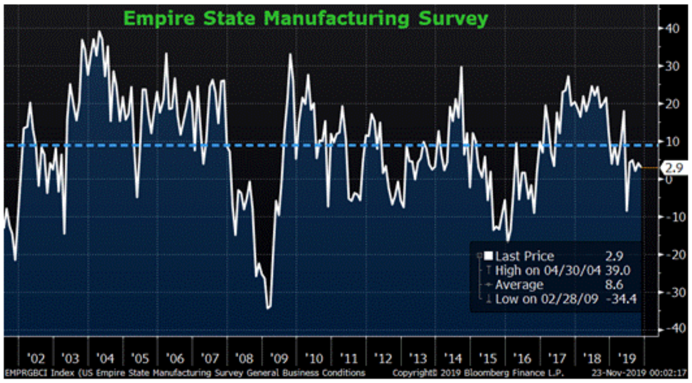
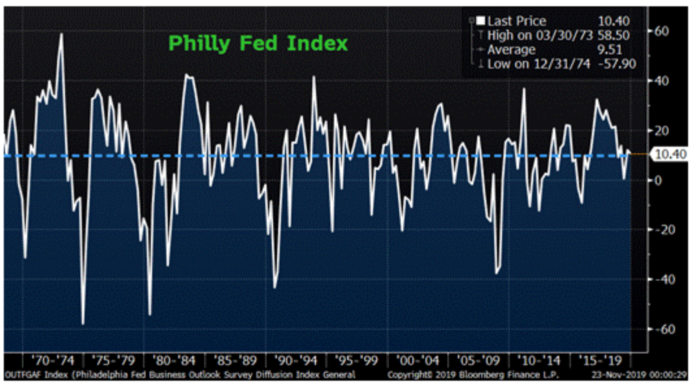
Mixed East Coast Factory Statistics





Though the tally was still above the breakeven line, the latest read on factory activity in the New York area fell to 2.9, below the historical average and weaker than expectations. On the other hand, the Philadelphia Fed's November measure of manufacturing activity in the mid-Atlantic region topped forecasts with an above-normal score of 10.4, while the employment component was very strong.

…even as housing numbers have been good,…

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Housing Market Healthy

With low mortgage rates and a strong labor market the obvious favorable catalysts, housing starts for October came in a tad below expectations at 1.314 million units, though the tally was up from September's reading of 1.266 million. Meanwhile, sales of existing homes climbed 1.9% last month to a seasonally adjusted annual rate of 5.46 million, near the best levels since early 2018.

…and October's Leading Economic Indicators index suggested that a recession does not appear to be in the cards,…

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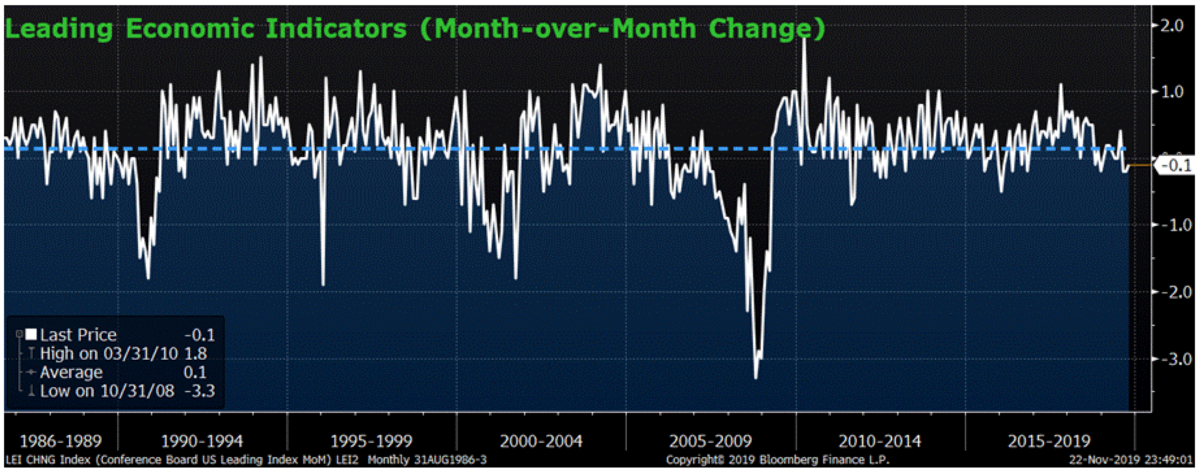
Forward-Looking October LEI Dips

The forward-looking index of Leading Economic Indicators inched lower by a less-worse-than-expected 0.1% on a month-over-month basis in October, while the September reading was revised down to a 0.2% decline. The results reflect weakness in manufacturing and an easing in labor strength, though the number, per the Conference Board, suggests that the economy will end the year at close to 2% growth.



…though the latest Atlanta Fed projection for near-term GDP growth was hardly robust.

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THE PRUDENT SPECULATOR
Recession Not Presently the Prediction

As the saying goes, economists have predicted nine of the last five recessions, and 2019 vividly illustrates why we like the Niels Bohr quotation, "Prediction is very difficult, especially if it is about the future." Indeed, eight months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then fall and rise and fall again to a 0.4% Q4 guess today.

We continue to be of the mind that the U.S. and global economies will muddle along, though we respect that the Organisation for Economic Co-operation and Development (OECD) just lowered its real world GDP growth outlook to 2.9%,…

OECD Global Growth: 2.9% in 2020

OECD Economic Outlook projections

Real GDP growth

Percent, year-on-year. Arrows indicate the direction of revisions since the September 2019 Interim Economic Outlook

	2019	2020	2021		2019	2020	2021
World	2.9	2.9	3.0	**G20**	3.1	3.2	3.3
Australia	1.7	2.3	2.3	**Argentina**	-3.0	-1.7	0.7
Canada	1.5	1.6	1.7	**Brazil**	0.8	1.7	1.8
Euro area	1.2	1.1	1.2	**China**	6.2	5.7	5.5
Germany	0.6	0.4	0.9	**India**[1]	5.8	6.2	6.4
France	1.3	1.2	1.2	**Indonesia**	5.0	5.0	5.1
Italy	0.2	0.4	0.5	**Mexico**	0.2	1.2	1.6
Japan	1.0	0.6	0.7	**Russia**	1.1	1.6	1.4
Korea	2.0	2.3	2.3	**Saudi Arabia**	0.2	1.4	1.4
United Kingdom	1.2	1.0	1.2	**South Africa**	0.5	1.2	1.3
United States	2.3	2.0	2.0	**Turkey**	0.3	3.0	3.2

downward by 0.3 pp and more · downward by less than 0.3 pp · no change · upward by less than 0.3 pp · upward by 0.3 pp and more

Note: Difference in percentage points based on rounded figures. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are members in their own right.
1. Fiscal years starting in April.
Source: OECD Economic Outlook 106 database; and OECD calculations.

…as the group reminded folks that businesses still have plenty of issues about which they are concerned.

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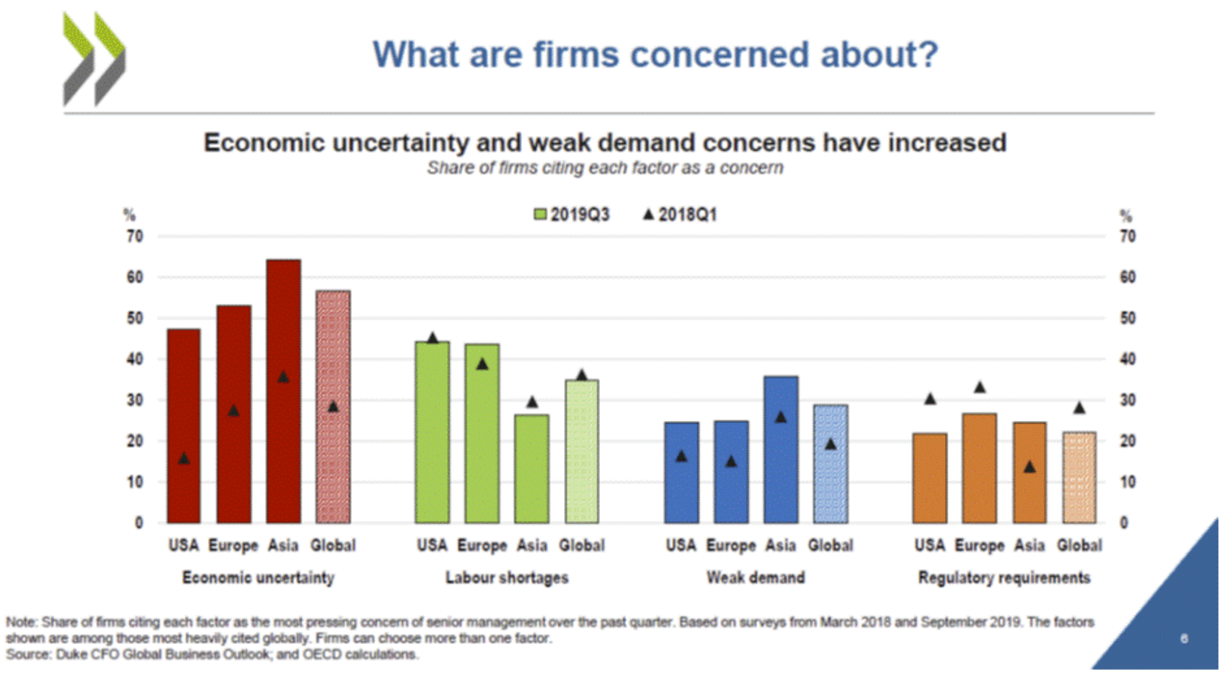
OECD Global Growth: Rising Worries



Of course, the equity markets have often climbed a wall of worry, and a big positive associated with all of the economic hand wringing is that interest rates remain extraordinarily low, bolstering the attractiveness of stocks from a dividend payout perspective,…

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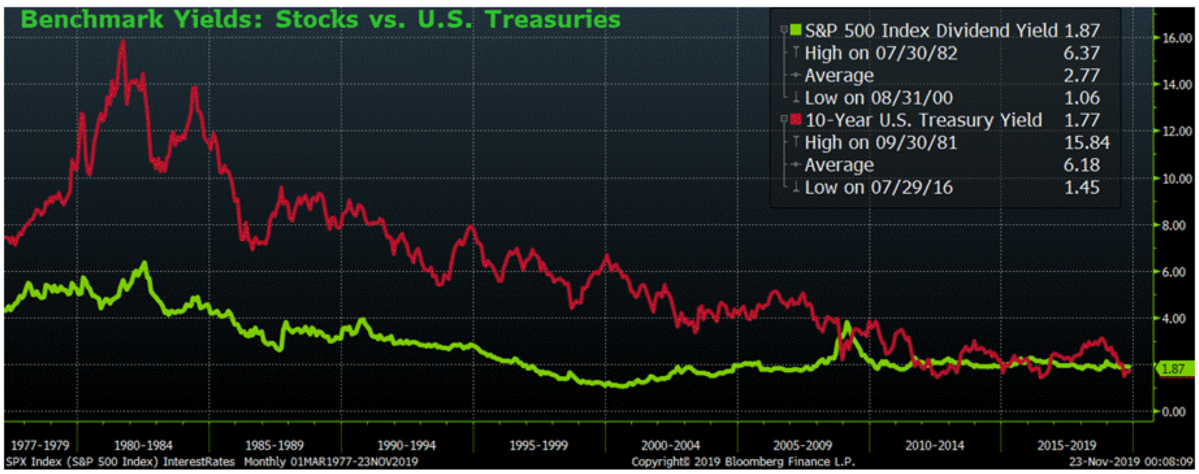
Equity vs. Treasury Yields

Though stocks are not necessarily a substitute for government bonds, the current payout on the S&P 500 (1.87%) is very competitive with the yield on U.S. Treasuries, with Uncle Sam's 10-year bond residing near historic lows. True, over the past four decades, the yield on stocks has been 90 basis points higher at 2.77%, on average, but the current 1.77% yield on the 10-year is just 29% of its 6.18% historical average.



…and allowing Corporate America to borrow very inexpensively to invest in organic and inorganic growth initiatives, retire higher-cost debt and buy back a mountain of stock.

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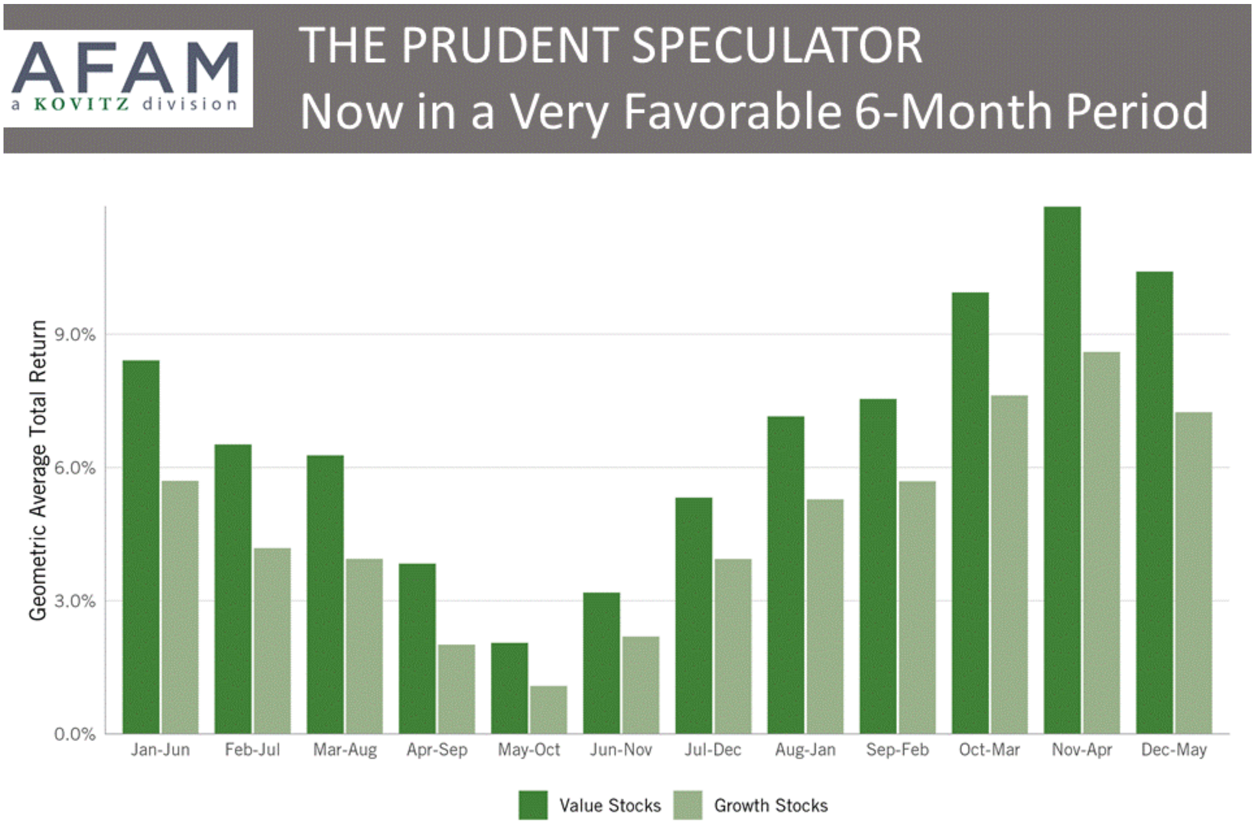
Corporate America Sharing the Wealth

While the market may not always show enthusiasm for our stocks, companies generally have a lot of free cash flow available to repurchase shares, often at discounted prices, and to pay out generous dividends.

S&P 500 20 LARGEST Q2 2019 BUYBACKS			Q2 2019 Buybacks	12-Months Jun,'19	12-Months Jun,'18	5-Year Buybacks	10-Year Buybacks	Indicated Dividend
Company	Ticker	Sector	$ Million	$ Million	$ Million	$ Million	$ Million	$ Million
Apple	AAPL	Information Technology	$18,154	$71,443	$63,924	$247,481	$302,414	$14,917
Bank of America	BAC	Financials	$6,507	$23,041	$17,673	$53,164	$58,059	$7,361
Oracle	ORCL	Information Technology	$6,301	$36,643	$11,853	$70,970	$99,812	$4,621
JPMorgan	JPM	Financials	$5,210	$20,645	$19,210	$63,391	$83,456	$11,678
Cisco Systems	CSCO	Information Technology	$4,936	$21,579	$18,250	$53,425	$85,891	$5,993
Wells Fargo	WFC	Financials	$4,906	$24,691	$11,734	$63,997	$79,914	$10,187
Microsoft	MSFT	Information Technology	$4,633	$19,543	$10,721	$72,464	$112,993	$14,100
Johnson Controls Internat'l	JCI	Industrials	$4,125	$5,154	$484	$8,011	$9,537	$828
Alphabet	GOOGL	Communication Services	$3,577	$11,452	$6,326	$25,996	$26,914	$0
Citigroup	C	Financials	$3,464	$13,043	$16,071	$49,206	$52,920	$4,717
Intel	INTC	Information Technology	$3,049	$10,037	$6,920	$34,109	$62,342	$5,641
Booking Holdings	BKNG	Consumer Discretionary	$2,718	$9,557	$3,178	$18,043	$19,578	$0
Johnson & Johnson	JNJ	Health Care	$2,486	$8,971	$2,715	$36,423	$58,932	$10,089
Amgen	AMGN	Health Care	$2,415	$9,426	$15,730	$32,349	$51,126	$3,538
Biogen	BIIB	Health Care	$2,402	$4,410	$3,000	$15,325	$20,316	$0
Visa	V	Information Technology	$2,152	$8,178	$7,418	$31,863	$44,473	$1,739
Lowe's Companies	LOW	Consumer Discretionary	$1,944	$3,961	$2,535	$18,373	$34,586	$1,722
Mastercard	MA	Information Technology	$1,921	$5,920	$4,824	$20,322	$28,488	$1,498
Honeywell Internat'l	HON	Industrials	$1,900	$4,946	$3,601	$13,875	$16,396	$2,387
Facebook	FB	Communication Services	$1,752	$12,083	$10,230	$24,262	$28,017	$0
Top 20			**$84,552**	**$324,723**	**$236,397**	**$953,050**	**$1,276,164**	**$101,017**
S&P 500			**$164,481**	**$797,028**	**$645,811**	**$3,082,465**	**$5,073,953**	**$530,924**
Top 20% of S&P 500			**51.40%**	**40.74%**	**36.60%**	**30.92%**	**25.15%**	**19.03%**

Source: Standard & Poor's. Gross values are not adjusted for float

While we think the above provides plenty of support for equities, and we like that we now are in the most wonderful time of the year,…



From 12.31.45 through 06.30.19. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French.. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…we are always braced for downside volatility, as pullbacks are an inevitable part of the investment process and short-term stock movements are highly susceptible to geopolitical events these days. However, the contrarian in us was happy to see the latest AAII sentiment numbers become more pessimistic and the most recent ICI report on fund flows continue to show little interest in equities.

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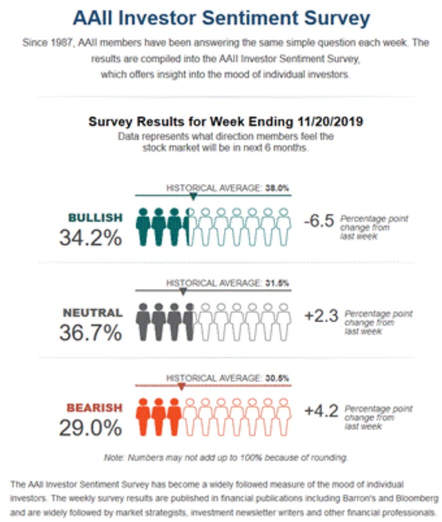
Sentiment: Not a Lot of Enthusiasm



November 21, 2019 - Optimism among individual investors about the short-term direction of the stock market fell back below 40% for the first time in three weeks. Bullish sentiment, expectations that stock prices will rise over the next six months, fell 6.5 percentage points to 34.2%. Bullish sentiment is below its historical average of 38.0% for the 37th time this year.

Bearish sentiment, expectations that stock prices will fall over the next six months, rose 4.2 percentage points to 29.0%. Even with the increase, pessimism remains below its historical average of 30.5% for the fifth consecutive week.

The latest AAII Sentiment Survey showed a dip in optimism and a rise in pessimism, with the 34.2% Bullish reading now below the 38.0% historical norm. Meanwhile, the most recent ICI calculation of exchange traded and mutual fund flows showed a continuation of the exodus out of U.S. stocks.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	11/13/2019	11/6/2019	10/30/2019	10/23/2019	10/16/2019
Total Equity	1,592	-4,491	-6,791	-5,661	756
Domestic	-3,348	-7,732	-4,107	-4,695	2,698
World	4,940	3,241	-2,684	-966	-1,942
Hybrid	-268	-626	-767	-170	-398
Total Bond	6,682	12,599	11,278	10,419	10,473
Taxable	4,875	10,417	9,612	8,275	8,786
Municipal	1,806	2,182	1,665	2,144	1,687
Commodities	-1,036	127	-319	222	-151
Total	6,970	7,609	3,400	4,809	10,679

Source: Investment Company Institute

Stock Updates

Jason Clark and Chris Quigley offer updates on 8 of our companies that were out with news this past week of sufficient importance to trigger a review of their Target Prices. 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/.

Luxury home goods retailer **Williams-Sonoma** (WSM – $67.42) earned $1.02 per share in fiscal Q3 2020 (vs. $1.01 est.). WSM had revenue of $1.44 billion, versus the $1.42 billion estimate. Shares tumbled 7.5% for the week, even as WSM raised the low end of its full-year guidance, which now stands at $4.65 to $4.80 of EPS (vs. $4.60 to $4.80 previously) and revenue between $5.77 billion and $5.90 billion (vs. $5.74 billion and $5.90 billion previously).

CEO Laura Alber stated, "Comparable revenues accelerated to 5.5%, operating margins held flat to last year despite increased tariff headwinds and EPS grew 7.4%. Our results and continued success relative to the history reflects that our strong value proposition of high-quality, design-led, sustainable products is resonating with our customers. In a fragmented home furnishings industry, it is hard to overstate how important it has been for us to continually evolve to stay ahead of the pack, remained at the forefront of driving profitable growth. Importantly, our digital-first model is a key component of our success. While we continue to innovate the experience in our stores, our revenue growth was led by e-commerce at 9%, reaching almost 57% of revenues. Highlights from the brands include West Elm, which led our performance with a 14.1% comp on top of an 8.3% comp last year."

Ms. Alber concluded, "While we are pleased with our year-to-date performance, we are even more excited about seeing the continued evolution and innovation come to life in our business. Our strong value proposition of high-quality, design-led sustainable products, combined with our multi-brand digital-first operating model is a winning combination. We are confident that we will deliver great service to our customers this holiday season and lead as an example of sustainability in our industry. We believe we are well equipped for an exceptional 2019 and we are ready for what's to come in 2020."

WSM posted solid earnings and improved guidance, so it was a bit surprising to see shares hit hard for what view as no transgression at all. The stock has gained more than 35% this year, handsomely outpacing the S&P 500 Retail Industry Group's 21% return. WSM management said that the company's mitigation strategies for the tariffs on Chinese goods have been paying off, and forward guidance includes no expectation that the tariffs will be repealed. Therefore, we think there would be additional upside if the tariffs were trimmed or eliminated. We think that WSM remains a compelling value proposition (with metrics like a 14 times forward P/E ratio, a 2.9% yield and a 0.9 times P/S ratio) with strong growth prospects. We continue to like WSM's investments in technology, collaborations with other brands, in-store and in-home design consultations and sizable online presence. Our Target Price has been bumped up to $86.

General merchandise discount store chain **Target** (TGT – $127.02) earned $1.36 per share in fiscal Q3 2020 (vs. $1.19 est.). TGT had total revenue of $18.4 billion, versus the $18.2 billion estimate. Shares rose more than 14% to an all-time high. For fiscal 2020, TGT's raised its guidance for EPS from a range of $5.90 to $6.20 to a range of $6.25 to $6.45. For the fourth quarter, TGT expects to earn between $1.54 and $1.74 per share.

CEO Brian Cornell explained, "When we analyze the components of our comp sales, we're pleased that traffic continues to be the primary driver of our growth. Overall, our traffic grew 3.1% in the third quarter as our guests chose to shop with us more often, both in stores and through our digital options. Among our sales channels, store comps were up 2.8% in the quarter, more than 1 percentage point faster than the second quarter, while digital comps grew 31% and drove 1.7 percentage points of the company's comp growth. As we look back at trends within the quarter, we continue to see the benefit of our balanced multi-category assortment, which gives us the flexibility to lean into different seasons and important moments in our guests' lives. At the beginning of the quarter, we enjoyed favorable results in our Back-to-School and Back-to-College assortment. And later in the quarter, as colder weather spread across the country, we saw a rapid acceleration in sales of our weather-sensitive categories."

Mr. Cornell closed, "Obviously, as a team, we enjoy reporting strong quarterly performance, and the last couple of quarters have been really gratifying. But the goal of our strategy is to make Target a leading retailer and a world-class company over the long term. It's about making Target more than just a good place to work, but an employer of choice at our headquarters, in our stores and throughout our supply chain. It's about making every Target store a valuable part of their local community, and working with those communities make them a great place to live and work. It's about making Target a special place for our guests when they shop in every channel, a retailer that provides inspiration while helping our guests save time and money, a company like no other, focused on bringing the joy of everyday life to all of our guests. Our current performance feels great, especially because it's confirmation that our long-term plan is working. And that's what we'll continue to focus on in the months, quarters and years ahead."

Target shares have nearly doubled this year, propelled by a strong U.S. economy and solid company-wide execution. While we don't think that TGT was ever in dire straits, the company's position did seem tenuous at times. The decision to close the Canada stores was significant (it cost more than a billion dollars) and launching smaller floor plan stores was an equally large wager. Fortunately, the difficult decisions in 2014 and 2015 are paying off now, we believe, and we expect that TGT shoppers will continue to like the products and the experience. Of course, there are always challenges on the horizon, including costs of goods concerns related to China, but for now we are happy holding shares with their good rank in our proprietary scoring system and we think the future looks bright. Our Target Price for Target, which trades for around 19 times NTM earnings and yields 2.1%, has been markedly increased $14 to $133.

Marine shipping concern **SFL Ltd.** (SFL – $14.11), formerly known as Ship Finance Ltd., reported earnings per share of $0.31, versus the $0.23 estimate, in fiscal Q1 2019. SFL posted revenue of $111.5 million, versus the $112.5 million estimate. Shares traded nearly 3.5% lower after the release. SFL expanded its fleet in the quarter, closing on three new vessels on favorable terms. The firm also extended its backlog by $160 million, keeping it around $3.7 billion overall.

CEO Ole Bjarte Hjertaker elaborated, "In September, we agreed the acquisition of 3 new build 300,000 deadweight ton crude oil carriers or VLCCs, and the first vessel was delivered in late September. The purchase price of $60 million is very attractive compared to the charter-free values of nearly $100 million for these vessels. We have secured financing of $47.5 million per vessel, and net equity invested is then $12.5 million. All 3 vessels have now been delivered, and the charter period is 5 years, and the transaction added around $33 million per vessel to our backlog. This is, in reality, a structured financing where the charterer will have repurchase options starting after 6 months and the risk reward profile is very attractive for us given that the charter-free broker values are so much in excess of the purchase price we have paid."

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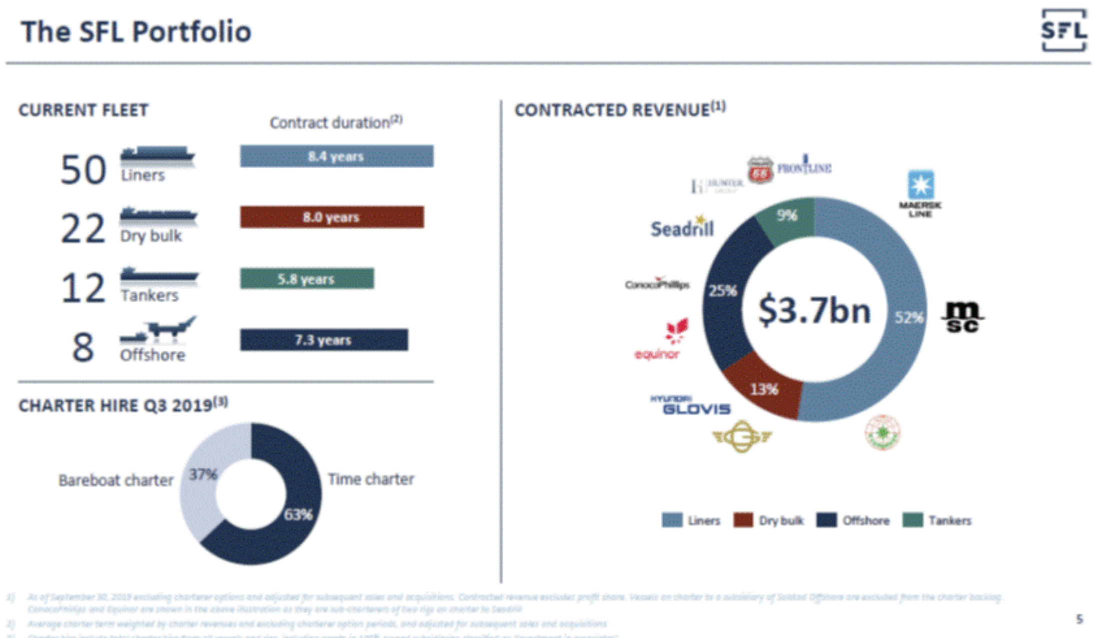
SFL – Diversified Fleet & Customer Base



To meet new International Maritime Organisation emission guidelines going into effect next year, SFL, like the rest of the industry, is striving to work scrubber installation into the existing fleet maintenance schedule. COO Trym Otto Sjolie explained, “Some of the installations have been done at very tail end of the [survey] window to be able to actually get the scrubbers in time. And on other ships, we are pulling them forward so that we can do it as early as possible. So that means the bulk of container ship installations will be done starting in December this year and will be done sort of by April next year. So, our aim is to get as much of the 2020 payback as possible, while staying within the window of the special survey.”

In an industry still quite a ways off from its cycle peak, we remain encouraged by SFL’s continued ability to cover its dividend through long-term fixed contracts which extend out to between seven and eight years. And, as Mr. Hjertaker added, “In an environment where traditional capital sources for the maritime industries remain constrained, we see many growth opportunities for SFL, and our strong liquidity position and constant focus on balance sheet management supports the continued growth in our asset base. With a versatile toolbox, including time charters, bareboat charters and financing structures, SFL is able to provide our customers with competitive tailor made solutions, demonstrated by our most recent transactions. We continuously evaluate new investment opportunities and expect to see new projects materialize in the coming months.”

Shares sport a rich dividend at 9.9% and trade for 1.4 times book value. Our Target Price has been fine-tuned to $16.

Shares of **Lowe's Companies** (LOW – $118.20) jumped to an all-time high as the home-improvement retailer reported earnings per share that beat analyst estimates ($1.41 vs. $1.35) and comparable U.S. sales that grew 3% in the quarter, though the company is reevaluating its operations in Canada. Management has also committed to invest $1.7 billion in cloud and operational technology and logistics infrastructure to better serve customers, transform the supply chain and invigorate the website.

CEO Marvin Ellison commented, "With a modernized stable architecture in place, we have the ability to provide our customers with basic online functionality and address legacy e-commerce capability gaps. Let me give you 4 examples of things we're fixing while we're temporarily slowing our dot-com growth. First, we're taking steps to separate freight from product cost to improve our price perception versus our competition. Second, we are improving our systems and processes to allow us to quickly add SKUs and drop-ship vendors to more rapidly expand our online assortment. These enhancements will reduce onboarding time from months to days. Third, we're building capabilities to ship certain SKUs requiring special handling, which will allow us to sell basic home improvement items like lithium-ion batteries, cleaning supplies and fire extinguishers online. Fourth, we'll improve the customer experience on our website, including a dynamic home page, simplified search and navigation, the ability to schedule their product delivery and one-click checkout. We know how to repair all of these capability gaps, and we have a detailed road map, combined with an exceptionally talented team with deep omnichannel experience. It will simply take time and proper sequencing. We expect to see our Lowes.com growth rate start to accelerate in the back half of 2020."

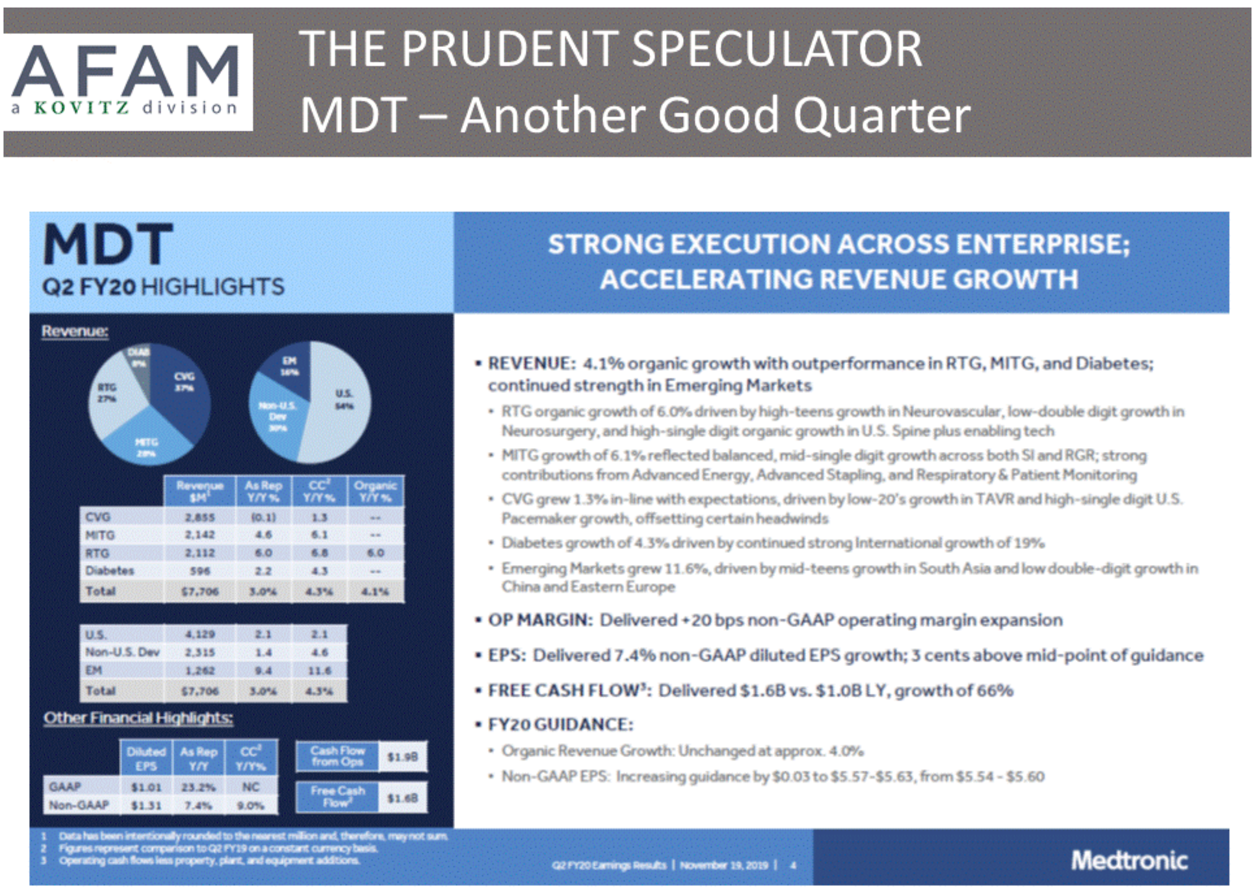
We think Lowe's robust professional customer base, healthy housing market and ability to allocate capital bode well for shareholders. That said, with the stock's latest run, shares trade at 21 times trailing-12-month earnings and 18 times next-12-month earnings, so we concede that LOW is becoming a bit pricey. Still, we like that the company has paid out a dividend for over 25 years, growing it at over 20% per year for the past five years, and that the yield is still 1.9%. We have decided to hike our Target Price to $130.

Food and beverage concern **JM Smucker** (SJM – $108.40) posted earnings per share of $2.26, versus the $2.13 estimate, in fiscal Q2 2020. SJM had sales of $1.96 billion, versus the $1.97 billion estimate. Shares gained 4% on the earnings news, even as management announced that it was again trimming its full-year adjusted EPS guidance from a range of $8.35 to $8.55 to a range of $8.10 to $8.30. The company also modestly reduced its full-year revenue forecast to $7.6 billion, a 3% or so drop from the fiscal 2019 tally of $7.84 billion.

CEO Mark Smucker commented, "We were able to offset softness in sales of certain brands to generate adjusted earnings per share above our projection, reflecting benefits of the targeted actions we are taking to prioritize financial discipline across the business. At a high level, these actions include: Increasing focus on investments in consumer-facing marketing; reprioritizing company-wide resources and initiatives to increase focus on key growth platforms such as Uncrustables and premium pet food; and reducing discretionary spending. Through these diligent actions, we delivered adjusted EPS of $2.26 compared to $2.17 in the prior year, representing growth of 4%. While pleased with our earnings results, our aggregate net sales performance does not reflect the potential of our brands or the progress we are making toward our strategic growth imperatives. We are committed to improving top line performance and taking decisive corrective actions where necessary."

While there will continue to be operating headwinds and competitive pressures, we like the diversification SJM adds to our broadly diversified portfolios and think that management's focus on pet foods and healthier franchises will boost the long-term prospects for the company. SJM sports a forward P/E ratio near 13 and a 3.3% dividend yield, while it ranks well relative to its peers in our proprietary scoring math. Nevertheless, given the weaker outlook, our Target Price has been nudged lower to $139.

Medical device maker **Medtronic PLC** (MDT – $110.82) released fiscal Q2 results this past week that topped analyst estimates. Revenues grew 4% in the quarter on a constant currency basis, while earnings per share rose 9%. Strong performance in the Brain Therapies division, with double-digit growth in the Neurosurgery and the Neurovascular businesses (including the Midas Rex product line), appear to have compensated for deceleration within the Cardiac and Vascular group.



Management updated guidance for the year, raising the fiscal year 2020 EPS outlook to a range of $5.57 to $5.63, reflecting Q2's outperformance, a $0.03 increase from the prior range of $5.54 to $5.60. This includes a negative $0.09 impact of currency at recent rates. For the fiscal third quarter, management expects EPS of $1.37 to $1.39, including a $0.02 currency headwind.

CEO Omar Ishrak expressed his confident outlook over the next two years in stating, "We expect our growth rate to accelerate, with the second half of FY '20 growing faster than the first as we anniversary recent headwinds and launch multiple new products. And in FY '21, we expect our top line momentum to accelerate as we get the increasing benefit of the FY '20 product launches as well as the products slated to launch next fiscal year."

While the shares experienced a strong run up between the the second and third calendar quarter this year, we are pleased that the "E" in the price to earnings multiple is starting to catch up to the "P". We continue to believe that MDT offers appealing long-term upside, and remain fans of the company's diverse portfolio, as it seems to continuously offer up new products to keep the growth engine going as older products mature. With domestic demographic trends in its favor, we continue to like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT shares trade at a reasonable level for a medical technology business at nearly 20 times next year's earnings and yield just below 2.0%. We have boosted our Target Price for MDT to $121.

Shares of **Kohl's** (KSS – $47.00) sank more than 20% last week after the family-oriented department store operator announced bottom-line results for the latest fiscal quarter that were well below expectations and lowered its full-fiscal-year guidance as the company spent more money to invest in future growth. In terms of fiscal Q3 2020 numbers, management said adjusted earnings per share totaled $0.74, versus the consensus analyst estimate of $0.86. Revenue of $4.36 billion slightly trailed forecasts of $4.39 billion. Happily, same store sales returned to a positive number, moving up 0.4% during the period, versus -3.2% in the first half of the year. Additionally, management said comps were strong exiting the quarter, which could bode well for the all important holiday season.

CEO Michelle Gass explained, "We are pleased to report that our business returned to growth during the third quarter, with a comparable sales increase of 0.4%. The quarter started off positive in August with another successful back-to-school season and ended strong in October. We enter the holiday period with momentum and are strategically increasing our investments to take advantage of the unique opportunity to fuel growth and customer acquisition. We believe that investing in the short-term will support our strategies to drive profitable growth over the long-term."

On the quarterly earnings call, Ms. Gass added, "We did see a heightened promotional environment in the third quarter and especially as we entered into the more traditional fall season in September. I think for us at Kohl's, we stand for value. We have the best loyalty program in the industry and we're really known and famous for delivering outstanding value. So, we must maintain and preserve this position. We're at a really unique time at the company and with all of our initiatives; all the innovation, the new brands, the traffic we're seeing for Amazon Returns; it's really important that we capitalize on this moment and drive market share and customer acquisition. So given the landscape and it is what it is and our guidance reflects that we expect that to continue into Q4, we are going to lean in and make the short-term investment in pricing and promotion as we need to to make sure that we can capture these customers and importantly get them on our loyalty ladder for the long term."

Considering store traffic, Ms. Gass stated, "For the quarter, we made tremendous progress in both traffic and sales. And from the first half of the year, we're up 360 basis points to get to a positive comp. And for us, momentum on the business and driving long-term health in the business, it has to start with growth and then that has to start with traffic and traffic has been and will continue to be the Number 1 priority. And we are seeing really solid traffic in our stores and that's coming from the initiatives we're launching, our marketing efforts, and yes, the ramp up of the Amazon Returns program."

Given the increase in investment, KSS now expects adjusted annual earnings per diluted share to be $4.75 to $4.95, which excludes $0.22 per diluted share related to the extinguishment of debt and impairments, store closing and other costs recognized in the first nine months of 2019, compared to its prior guidance of $5.15 to $5.45.

Despite the downward revision to the short-term outlook, and the potential near-term headwinds related to the ongoing trade conflict with China, we continue to like Kohl's evolution and are optimistic about the initiatives to drive foot and online traffic and boost sales in the long-term. Our Target Price for KSS is now $66, but we note that the stock presently trades for 9.5 times estimated earnings and yields 5.7%, three time greater than the 10-year U.S. Treasury yield near 1.8%.

Despite turning in a solid quarter, shares of **Foot Locker** (FL – $40.25) plummeted almost 12% last week after the specialty retailer gave a bit more conservative outlook than expected and said that it would discontinue providing quarterly guidance, though it will offer annual projections. Of course, as long-term-oriented investors, we are more than fine with the change, even as we know that short-term focused analysts and traders were disconcerted. Revenue for fiscal Q3 2020 came in at $1.93 billion, versus estimates of $1.94 billion, while adjusted EPS was $1.13, compared to forecasts looking for $1.07. Same store comparable sales grew 5.7% in the reported quarter.

CEO Richard Johnson commented, "We are pleased with our performance in the quarter, which reflects the success of our strategic focus on building even deeper connections with our customers and further strengthening relationships with our vendors. Across the company, we are making great strides in implementing our four strategic imperatives, which are designed to ensure we are best positioned to compete in the retail marketplace by inspiring and empowering youth culture while also strengthening our bottom line and driving value for our shareholders."

The company's cash totaled $744 million, while the debt on its balance sheet was $122 million, even after FL bought back 4.6 million shares for $178 million during the quarter and paid a quarterly dividend of $0.38 per share, for a total of $41 million. CFO Lauren Peters added, "The strong results we delivered in the quarter reflect our work to drive the top line, while continuing to strengthen our operational execution, as reflected in our improved gross margin, SG&A, and inventory productivity. As we enter the all-important holiday selling season, we will remain focused on execution to continue to position us to achieve our long-term financial objectives."

We are constructive on Foot Locker's sustained positive momentum in comparable store sales even as numerous retailers struggle with foot traffic softness in traditional malls. We also think the recent announcement by Nike that it would end its partnership with Amazon should push some near-term incremental market share FL's way. 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.

At the end of the day, 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 also are pleased with the continued work to become a more well-rounded omnichannel retailer. We think the growing digital channel still holds a lot of opportunity, but we realize that 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.

We remain fans of the stock as FL yields 3.8%, while it trades for 8 times NTM adjusted EPS expectations, even as consensus analyst profit forecasts still call for growth in each of the next three years. Our Target Price continues to reside at $73.