Market Commentary Monday, December 16, 2019

December 16, 2019

EXECUTIVE SUMMARY

Week in Review – Major Geopolitical Headlines; Equity Rally Continues
Brexit – Four-Plus Years Later, S&P 500 Up 50%
FOMC Meeting – Fed Leaves Rates Unchanged
Powell Speaks – Fed Chair on the Economy
Interest Rates – Highly Supportive of Stock Prices
Sentiment – Still Not a Lot of Optimism
Target Prices – New Listing Coming to theprudentspeculator.com
Stock Updates – DAL, ORCL, AVGO, SNY & DBI

Market Review

Stocks enjoyed another solid week, with the major market averages tacking on modest gains that added to the significant advance seen thus far in 2019 and over the last two decades.

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THE PRUDENT SPECULATOR
Favorable Returns Growth AND Value

While returns over the last two decades on the more inexpensive areas of the equity market have not exactly been chopped liver…we like that Value has come to life of late!

Total Returns Matrix

Since 8.31.19	Year to Date	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol	Name
-0.70	6.66	8.22	13.08	11.02	9.35	25.28	61.01	136.42	LEGATRUU Index	Global Aggregate Bond Index
-0.21	8.87	10.00	13.26	16.25	20.93	43.43	84.26	164.15	LBUSTRUU Index	U.S. Aggregate Bond Index
7.32	23.57	17.21	51.67	83.90	153.18	245.34	287.19	306.02	INDU Index	Dow Jones Industrial Average
8.37	23.65	18.01	32.11	49.13	97.62	151.20	188.23	218.28	NYA Index	NYSE Composite Index
8.46	26.10	19.06	37.66	59.98	138.73	248.51	255.62	216.52	RUO Index	Russell 2000 Growth Index
11.71	19.86	12.71	11.73	43.98	99.07	177.77	171.93	515.85	**RUJ Index**	**Russell 2000 Value Index**
10.05	23.07	15.97	24.15	52.26	118.67	212.48	213.61	353.27	RUT Index	Russell 2000 Index
8.07	32.71	25.52	66.05	95.09	188.45	304.24	335.16	185.23	RAG Index	Russell 3000 Growth Index
9.56	24.14	17.59	26.70	50.94	120.36	200.18	197.94	301.46	**RAV Index**	**Russell 3000 Value Index**
8.79	28.40	21.53	45.36	72.10	153.04	249.73	263.36	251.57	RAY Index	Russell 3000 Index
6.18	28.17	20.82	61.07	88.34	181.57	293.26	321.34	201.06	SGX Index	S&P 500 Growth Index
12.14	29.73	23.46	34.39	60.51	131.80	210.18	202.02	247.88	**SVX Index**	**S&P 500 Value Index**
8.91	28.89	22.00	48.06	75.31	157.80	252.37	261.07	229.90	SPX Index	S&P 500 Index
5.94	26.81	19.58	51.43	68.47	173.79	316.09	355.75	309.74	SPXPG Index	S&P 500 Pure Growth Index
11.85	23.06	16.72	23.60	45.71	138.49	264.98	281.58	523.79	SPXPV Index	S&P 500 Pure Value Index
10.80	10.38	11.34	35.26	53.88	151.98	242.82	303.74	531.29	BRK/B Equity	Berkshire Hathaway Inc

As of 12.13.19. Source Kovitz Investment Group using data from Bloomberg

Of course, not a whole lot happened in the world last week…aside from the U.S. and China agreeing to a "phase one" trade deal, Democrats on the House Judiciary Committee voting to approve two articles of impeachment against President Trump and Conservatives winning a large majority in the U.K. election, paving the way for Brexit. Interestingly, that last item, taking the United Kingdom out of the European Union, was supposed to spell doom for the equity markets when the measure scored a narrow victory with voters nearly four-and-a-half years ago, but the S&P 500 (even without dividends) is some 50% higher today, illustrating why we always like to say that the secret to success in stocks is not to get scared out of them!

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THE PRUDENT SPECULATOR
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	181%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	143%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	164%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	121%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	122%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	91%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	72%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	59%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		56%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		54%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		51%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		57%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		53%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		68%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		50%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		48%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**69%**	**87%**

Source: Kovitz Investment Group using data from Bloomberg. As of 12.13.19

All the geopolitical headlines last week almost pushed the latest meeting of the Federal Open Market Committee off the front pages, but Jerome H. Powell & Co. decided to leave their target for the Fed Funds rate unchanged at 1.50% to 1.75%, which was the consensus expectation.

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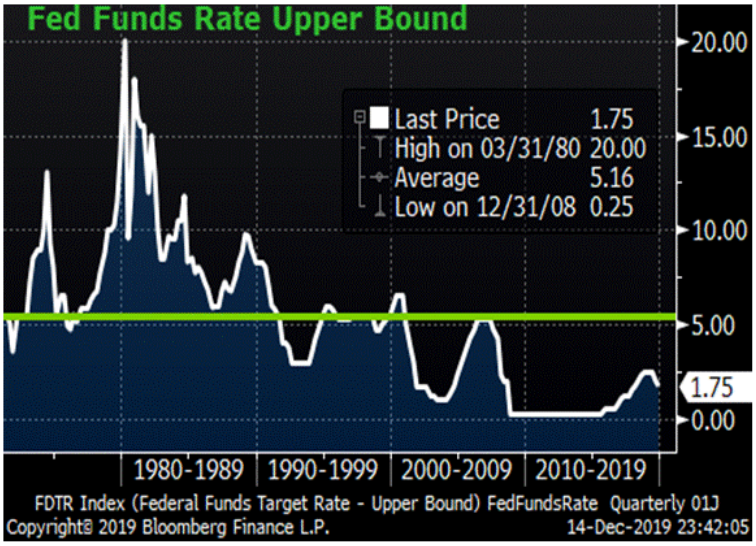
THE PRUDENT SPECULATOR
FOMC Fed Funds Rate Targets: Dec 2019

While slowing economic growth has led to investor consternation, the Federal Reserve remains highly accommodative with the upper bound for the Fed Funds rate having been cut to 1.75% and even the highest FOMC Participant 2022 target projection now at only 2.875%.

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

Midpoint of Target Range	2019	2020	2021	2022	Longer Run
3.375					
3.250					1
3.125					
3.000					1
2.875				2	
2.750					2
2.625				2	
2.500					8
2.375			3	4	1
2.250					2
2.125			5	3	
2.000					1
1.875		4	4	5	
1.750					
1.625	17	13	5	1	
1.500					

Source: Federal Reserve, December 11, 2019



Source: Bloomberg

The FOMC Statement that accompanied the announcement on interest rates was generally upbeat,…

FOMC Statement: December 11, 2019

Information received since the Federal Open Market Committee met in October indicates that ***the labor market remains strong and that economic activity has been rising at a moderate rate****.* ***Job gains have been solid, on average, in recent months, and the unemployment rate has remained low****. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-month basis,* ***overall inflation and inflation for items other than food and energy are running below 2%.*** *Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.*

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ***The Committee decided to maintain the target range for the federal funds rate at 1.5% to 1.75%. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective.*** *The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate.*

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

…as were comments (with our illustrations) from Chair Powell's Press Conference later on Fed Announcement Day:

The economic expansion is in its 11th year, the longest on record. Household spending has been strong—supported by a healthy job market, rising incomes, and solid consumer confidence. In contrast, business investment and exports remain weak, and manufacturing output has declined over the past year. As has been the case for some time, sluggish growth abroad and trade developments have been weighing on those sectors. Even so, the overall economy has been growing moderately. And with a strong household sector and supportive monetary and financial conditions, we expect moderate growth to continue. As seen from FOMC participants' most recent projections, the median expectation for real GDP growth slows slightly over the next few years but remains near 2%.

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THE PRUDENT SPECULATOR
No Recession & Lower Rates the Outlook

The Fed left its GDP growth projections unchanged, with the longer-run forecast still at 1.9% and the estimate for 2020 at 2.0%. The long-run estimate for the Federal Funds rate remained at a very low 2.5%.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2019

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2019	2020	2021	2022	Longer run	2019	2020	2021	2022	Longer run	2019	2020	2021	2022	Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9	2.1–2.2	2.0–2.2	1.8–2.0	1.8–2.0	1.8–2.0	2.1–2.3	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
September projection	2.2	2.0	1.9	1.8	1.9	2.1–2.3	1.8–2.1	1.8–2.0	1.7–2.0	1.8–2.0	2.1–2.4	1.7–2.3	1.7–2.1	1.6–2.1	1.7–2.1
Unemployment rate	3.6	3.5	3.6	3.7	4.1	3.5–3.6	3.5–3.7	3.5–3.9	3.5–4.0	3.9–4.3	3.5–3.6	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
September projection	3.7	3.7	3.8	3.9	4.2	3.6–3.7	3.6–3.8	3.6–3.9	3.7–4.0	4.0–4.3	3.5–3.8	3.3–4.0	3.3–4.1	3.3–4.2	3.6–4.5
PCE inflation	1.5	1.9	2.0	2.0	2.0	1.4–1.5	1.8–1.9	2.0–2.1	2.0–2.2	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
September projection	1.5	1.9	2.0	2.0	2.0	1.5–1.6	1.8–2.0	2.0	2.0–2.2	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.6	1.9	2.0	2.0		1.6–1.7	1.9–2.0	2.0–2.1	2.0–2.2		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
September projection	1.8	1.9	2.0	2.0		1.7–1.8	1.9–2.0	2.0	2.0–2.2		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path															
Federal funds rate	1.6	1.6	1.9	2.1	2.5	1.6	1.6–1.9	1.6–2.1	1.9–2.6	2.4–2.8	1.6	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3
September projection	1.9	1.9	2.1	2.4	2.5	1.6–2.1	1.6–2.1	1.6–2.4	1.9–2.6	2.5–2.8	1.6–2.1	1.6–2.4	1.6–2.6	1.6–2.9	2.0–3.3

Source: Federal Reserve, December 11, 2019

The unemployment rate has been near half-century lows for well more than a year, and the pace of job gains remains solid. Participation in the labor force by people in their prime working years, ages 25 through 54, has been increasing. And wages have been rising, particularly for lower-paying jobs. People who live and work in low- and middle-income communities tell us that many who have struggled to find work are now finding new opportunities. Employment gains have been broad-based across all racial and ethnic groups and all levels of education. These developments underscore for us the importance of sustaining the expansion so that the strong job market reaches more of those left behind. We expect the job market to remain strong. The median of participants' projections for the unemployment rate remains below 4% over the next several years.

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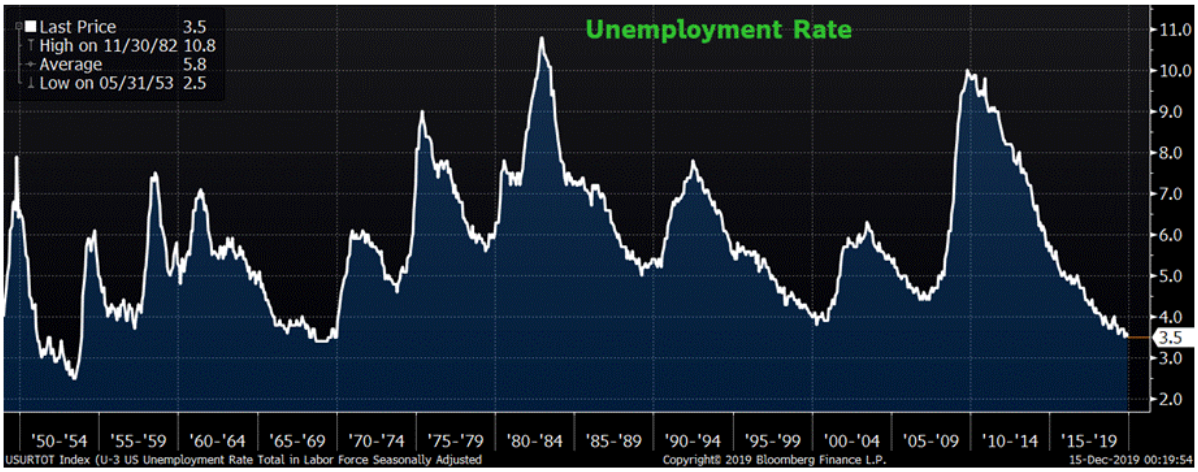
THE PRUDENT SPECULATOR
Half-Century Low in the U.S. Jobless Rate

The number of new jobs created during November soared to 266,000. True, the tally included some 50,000 GM employees returning to work, but the figure blew away the forecast of 180,000. Payrolls for the previous two months were also revised sharply-higher by a combined 41,000 jobs. The unemployment rate ticked down to 3.5%, a 50-year low, with a modest decrease in the labor participation rate to 63.2%.



Inflation continues to run below our symmetric 2% objective. Over the 12 months through October, total PCE inflation was 1.3% and core inflation, which excludes volatile food and energy prices and is a better indicator of future inflation, was 1.6%. While low and stable inflation is certainly a good thing, inflation that runs persistently below our objective can lead to an unhealthy dynamic in which longer-term inflation expectations drift down, pulling actual inflation even lower. In turn, interest rates would be lower as well and closer to their effective lower bound. As a result, the scope for interest rate reductions to support the economy in a future downturn would be diminished, resulting in worse economic outcomes for American families and businesses. Against the backdrop of a strong economy and supportive monetary policy, we expect inflation will rise to 2%. The median of participants' projections rises to 1.9% next year and 2% in 2021. We are strongly committed to achieving our symmetric 2% inflation goal.

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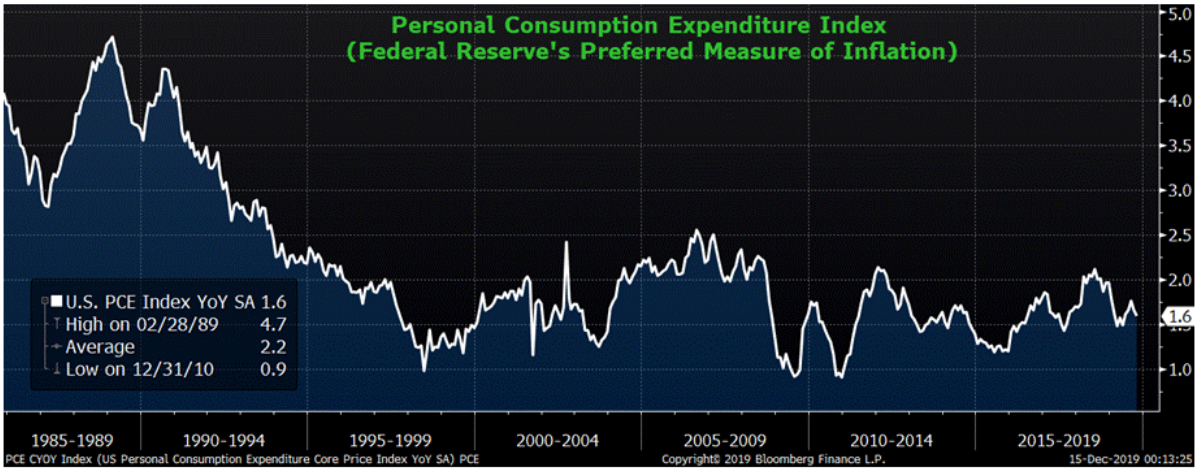
THE PRUDENT SPECULATOR
Inflation Continues to Run Unusually Low

The Consumer Price Index for November did come in at a surprising 2.1% year-over-year gain, the highest level in 12 months, but the latest read on the "core" Personal Consumption Expenditure (PCE), the Federal Reserve's preferred measure of inflation, was just 1.6%, below the desired 2.0% level, meaning that there is little reason for Jerome H. Powell & Co. to consider raising the Federal Funds rate target.



Over the course of the past year, our views about the path of interest rates that would best achieve our employment and inflation objectives changed significantly, as the economy faced some important challenges from weaker global growth and trade developments. As the year progressed, we adjusted the stance of monetary policy to cushion the economy from these developments and to provide some insurance against the associated risks. In addition, inflation pressures were unexpectedly muted, strengthening the case for a more supportive stance of policy. Rather than modestly increasing the target rate for the federal funds rate this year as seemed appropriate a year ago, we reduced it by 3/4 percentage point. This shift has helped support the economy and has kept the outlook on track. The medians of participants' projections for economic growth, the unemployment rate, and inflation are little changed from a year ago, aside from a lower inflation projection for 2019. Of course, that is the function of monetary policy—to adjust interest rates to promote employment and price stability in response to forces acting on the economy.

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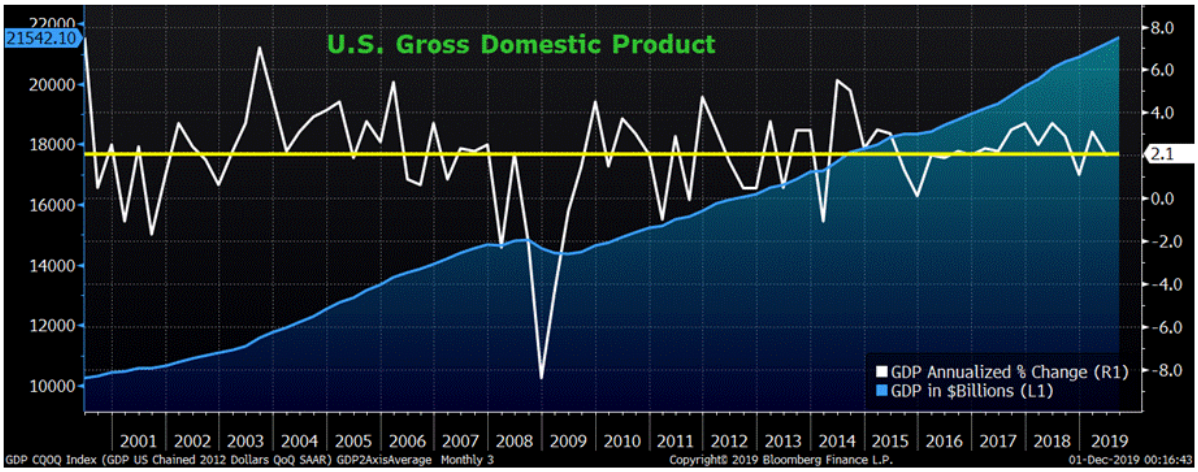
THE PRUDENT SPECULATOR
U.S. Economic Growth OK in Q3

Uncle Sam calculated Q3 '19 GDP growth at a revised and moderately healthy 2.1% annualized real (inflation-adjusted) rate, rising from the 2.0% rate turned in for Q2 '19. True, 2.1% growth is hardly robust (it is about average since 2000) and many still think a recession is forthcoming, due in large part to the trade battles, but even a modest downturn would still see the economy expand on a nominal basis.



We believe that the current stance of monetary policy will support sustained growth, a strong labor market, and inflation near our symmetric 2% objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate. Looking ahead, we will be monitoring the effects of our recent policy actions, along with other information bearing on the outlook, as we assess the appropriate path of the target range for the federal funds rate. Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a preset course.

To be sure, there are risks to the relatively upbeat economic outlook and a couple of data points out last week were not exactly grand,…

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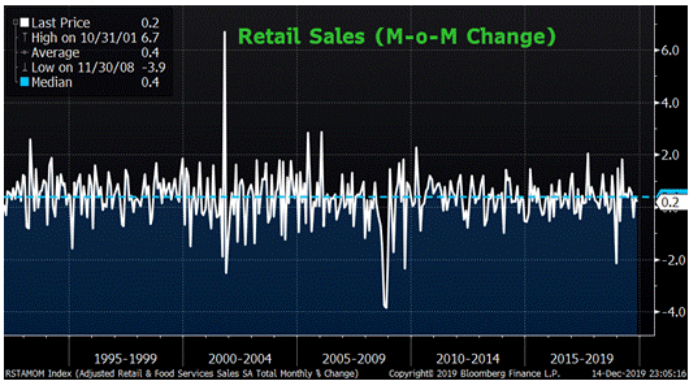
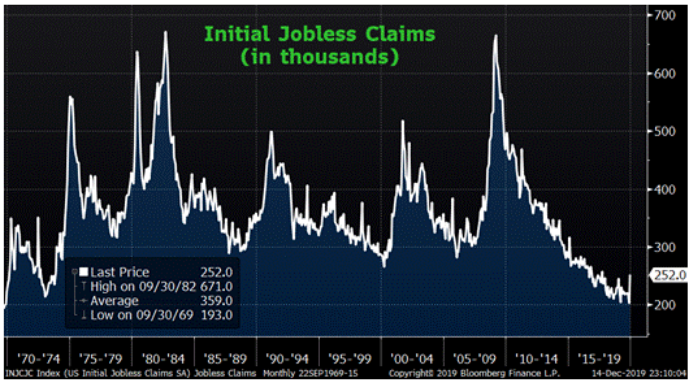
THE PRUDENT SPECULATOR
Less-than-Stellar Economic Stats





While a later-than-usual Thanksgiving deserved some of the blame, Uncle Sam said that retail sales for November came in weaker-than-projected with a gain of 0.2%. Sales excluding automobiles also trailed forecasts with a rise of just 0.1%. Meanwhile, Thanksgiving was also likely to blame for a big spike higher in the latest weekly jobless claims figure to 252,000, the highest tally since September 2017.

…but the odds of recessions have retreated, at least as calculated by Bloomberg,…

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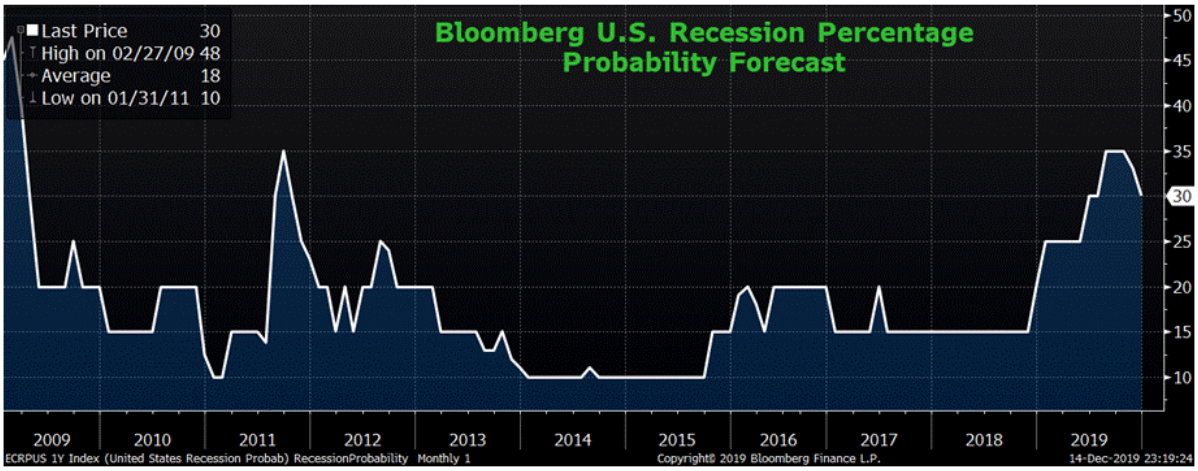
THE PRUDENT SPECULATOR
Recession Probability: Down to 30%

While it is clear that domestic and global economic growth is not as robust as most would like, and some domestic data points have not exactly been booming, the probability of recession has just dipped a couple more points to 30%. 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.



…while the current GDP growth guess from the Atlanta Fed stands at 2.0%.

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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, nine months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth guess, but then fall and rise and fall and rise again to a 2.0% estimate today.

The above would seem to support our long-held view that the U.S. economy will muddle along with moderate growth that will continue to support Corporate America's bottom lines without leading to a significant increase in interest rates, all of which should lead to higher stock prices over time.

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THE PRUDENT SPECULATOR
Interest Rates Very Supportive of Stocks

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively rich earnings yield of 4.74%.

Of course, we recognize that there are never any guarantees as stock prices move in both directions, but the asset class historically has proved to be very rewarding,…

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THE PRUDENT SPECULATOR
Volatility is Normal: Value/Divs Win Race

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	109.3%	933	26	3.5	3/9/2009	12/13/2019
17.5%	66.7%	579	38	2.4	12/24/2018	12/13/2019
15.0%	66.4%	562	44	2.1	12/24/2018	12/13/2019
12.5%	43.9%	335	71	1.3	12/24/2018	12/13/2019
10.0%	34.5%	244	97	0.9	12/24/2018	12/13/2019
7.5%	23.5%	148	154	0.6	12/24/2018	12/13/2019
5.0%	14.7%	73	300	0.3	8/14/2019	12/13/2019

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.6	1/6/2009	3/9/2009
-17.5%	-30.3%	222	37	2.4	9/20/2018	12/24/2018
-15.0%	-28.3%	192	43	2.1	9/20/2018	12/24/2018
-12.5%	-22.6%	140	70	1.3	9/20/2018	12/24/2018
-10.0%	-19.5%	103	96	0.9	9/20/2018	12/24/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/24/2018
-5.0%	-10.9%	37	299	0.4	7/26/2019	8/14/2019

From 02.20.28 through 12.13.19. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.8%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 10.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…and we remain pleased that there is still little in the way of investor euphoria, despite the all-time highs hit last week and the terrific returns turned in by equities this year.

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THE PRUDENT SPECULATOR
Sentiment: Still Not a Ton of Enthusiasm

December 12, 2019 - Bullish sentiment, expectations that stock prices will rise over the next six months, rose 5.9 percentage points to 37.6%. The increase was not large enough to prevent optimism from staying below its historical average of 38.0% for the 40th time this year.

Bearish sentiment, expectations that stock prices will fall over the next six months, fell 3.1 percentage points to 26.1%. Pessimism is below its historical average of 30.5%.

The latest AAII Sentiment Survey showed a jump in optimism to 37.6%, but the Bullish reading is still below the 38.0% historical norm. Meanwhile, investors were back to selling stocks in the most recent ICI calculations of exchange traded and mutual fund flows.

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

Week Ended	12/4/2019	11/26/2019	11/20/2019	11/13/2019	11/6/2019
Total Equity	-1,053	-22	-5,632	1,592	-4,491
Domestic	-3,255	609	-7,048	-3,327	-7,732
World	2,202	-631	1,416	4,919	3,241
Hybrid	-703	-748	-345	-268	-626
Total Bond	12,039	8,666	13,264	6,682	12,596
Taxable	9,766	5,998	10,527	4,875	10,415
Municipal	2,273	2,668	2,737	1,806	2,181
Commodities	-446	243	-355	-1,036	127
Total	9,836	8,139	6,932	6,970	7,606

Source: Investment Company Institute

Stock Updates

Jason Clark and Chris Quigley offer updates on 5 of our companies that were out with news this past week of sufficient importance to trigger a review of their Target Prices. We are also in the process of posting updated Target Prices to theprudentspeculator.com for all of our 120+ formerly recommended but not yet closed out stocks. 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/.

Delta Air Lines (DAL – $56.73) hosted its investor day last Thursday, where the company offered guidance for the balance of 2019 and for 2020. For 2019, Delta expects to see $47 billion of revenue, with EPS coming in between $6.75 and $7.25. Revenue growth for 2020 is expected to be between 4% and 6%, equating to roughly $49 billion, a result of company-wide efforts to tailor services and exceed customer expectations day in and day out.

CEO Ed Bastian said, "I know that 2020 has a couple of unique challenges. Every year has unique challenges to itself. One of the things we'll certainly be watching carefully is the return and the introduction, reintroduction of the MAX into the system. And we've got our views in terms of how that's going to be handled. But the reality is that while that's an uncertainty, we did not get a material benefit. We got some benefit, no question about it in the year. It wasn't a big

source of our revenue gains. It was really the strength of our brand and our own performance that drove our revenues. And I don't think it's going to be a material risk to us as we look into 2020 either. Secondly, 2020, as we all know, is an election year. And we know what happened in 2016 with the elections. It weighed on consumer sentiment a bit. It certainly weighed on business decisions as people were waiting to see with some clarity what direction the politics and our nation and our government was going. That will be one of the factors that we deal with as we think for the year."

Mr. Bastian concluded, "We've got a great opportunity for the future and we look forward to an exciting 2020 and importantly really look forward to being able to talk to the long-term opportunities."

We appreciate the effort that Delta has put in to revamp the customer experience. It's a fine line between providing a customized experience and, to use Delta's word, "creepy." We think the airline has done well, reducing denied boardings and adjusting schedules in advance of bad weather, measures that help both profitability and retention. Delta continues to strive to woo business travelers by renovating lounges around the world, offering gate transfers via Porsche and serving top-notch food, to ensure that the highest-margin customers return. The company also just announced that it was buying a minority stake in private-jet operator Wheels Up, which along with Delta's fleet of 190 corporate aircraft, bolsters DAL's efforts to go after premium passengers. With the stock trading for just 8.2 times NTM earnings and yielding 2.8%, our Target Price has been edged up to $79.

System software firm **Oracle** (ORCL – $54.51) reported earnings per share of $0.90, versus the $0.89 estimate, in fiscal Q2 2020. ORCL had sales of $9.61 billion, versus the $9.65 billion estimate. Oracle did not make changes to fiscal 2020 guidance, which imprecisely "will grow faster than last year" and "will include double-digit EPS growth for the year," according to Co-CEO Safra Catz. Shares tumbled 3.5% following the announcement.

Ms. Catz commented, "This quarter, we finished with total revenue growth within my guidance range and EPS at the high end. Cloud Services and License Support continue to see material growth. And given that it represents more than 70% of our total revenue, it more than offsets declines in some smaller nonstrategic businesses. We continue to be encouraged that our overall revenue growth will further accelerate as we reach the final stages of this ongoing shift in business mix. The overriding theme I hear [from clients] is the compelling nature of our technology and how it is critical to the success of their businesses: feature-rich, simple, secure, performant and priced right. They see Oracle as being strategic to their ongoing operations, and they tell me repeatedly that Oracle is the right partner to run their mission-critical assets, both in the cloud and on-premise. Their comments reinforce our conviction that our product strategy is right."

Ms. Catz added, "We remain committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases and prudent use of debt and the dividend. This quarter, we repurchased 91 million shares for a total of $5 billion. Over the last 12 months, we've repurchased nearly 500 million shares for a total of $26 billion. And over the last 5 years,

we've reduced the shares outstanding by more than 25%. The Board of Directors again declared a quarterly dividend of $0.24 per share."

Oracle Founder Larry Ellison concluded, "I've said before, there are 2 key product areas that will determine Oracle's future in the cloud: Cloud ERP applications and the Autonomous Database. Being the clear #1 in both of these 2 giant applications and infrastructure market segments will enable the success of our other application and infrastructure products in adjacent market segments."

We continue to be encouraged by the possibilities in the cloud business—and big wins in the last few quarters—and we believe that ORCL still has the right leadership team in place that will drive top-line growth to the bottom line. We have been pleased with ORCL's execution, after a difficult initial transition to the subscription model, and think that despite the fierce cloud competition, there is plenty of room for more than one firm to be successful. We believe that ORCL's relentless pursuit of the #1 spot in any competition is a key differentiator and has contributed to the company's overall success. We think that ORCL shares remain undervalued, trading for around 13 times forward earnings. Our Target Price has been bumped up to $64. ORCL currently yields 1.8%.

Broadcom (AVGO – $315.42) reported fiscal Q4 results on Thursday, which beat analyst expectations on the top and bottom lines. AVGO earned $5.39 per share (vs. $5.38 est.) on revenue of $5.78 billion (vs. $5.73 billion est.). The stock initially gained in after-hours trading Thursday afternoon, but the shares fell more than 3% on Friday as analysts were evidently disconcerted about questions surrounding the semiconductor giant's long-term commitment to its wireless communications business. Interestingly, more than a few of Wall Street's finest decided to lift their Target Prices for the stock anyway.

AVGO CEO Hock Tan commented, "Our infrastructure software businesses, which focus primarily on large enterprises are, in fact, quite complementary and enhance these core semi businesses by bringing us closer to our end customers. This gives us a natural barrier to entry and gives us comfort that we can drive sustainable revenue growth and improve profitability long term. Alongside these core semiconductor businesses, we have several valuable semiconductor businesses that are much more stand-alone in nature due to their unique customers, technology and supply chain characteristics. Now this will include our wireless businesses and our industrial businesses. We don't have the same kind of synergies with this as we do in our core semi business."

Mr. Tan's statement seemed to suggest that the core business was in semiconductors, with "stand-alone" businesses such as the Wireless or Industrial segments secondary. If that's correct, it's conceivable that Broadcom may again be changing directions and would be willing to part with the Wireless business. It's unclear to us if Broadcom is changing directions or if it's a poorly worded statement, but we like the company either way.

Through acquisitions and organic growth, AVGO has grown EPS from $11.45 in 2016 to an estimated $23.06 in 2020 and analysts expect to see more than $27.00 of EPS in 2022. We are fans of AVGO's strong execution and reasonable valuation metrics, including a forward P/E

around 14 and free cash flow yield above 7%. Shares sport a very generous (especially, for an IT name) dividend yield of 4.1%, which was just hiked a whopping 23% from a quarterly rate of $2.65 per share to $3.25. Our Target Price has been raised to $424.

Shares of healthcare concern **Sanofi** (SNY – $49.79) surged more than 8% on the week as CEO Paul Hudson laid out a new strategy to drive innovation and growth on Monday at the firm's Capital Markets Day. Wall Street seems to be catching on to the blockbuster potential hidden within Sanofi's pipeline that we've been excited about for some time. The firm has benefited from the success of its insulin solution Lantus for many years, due the difficulty and complexity inherent with the creation and manufacture of alternatives. However, increasing competition in the insulin market has spurred an urgency to shift focus toward other areas of significant unmet need, such as oncology and immunology. The CEO also expressed intent to drive savings through efficiency initiatives that reduce spending on non-prioritized business areas within the company.

Mr. Hudson aims to affect positive change within the firm's culture by accelerating the push to test new treatments and discoveries. After just over 3 months at the helm, he had the following to say, "Having a critical and dispassionate look at the pipeline, I kept asking myself, why does nobody want to talk about these assets? And the answer was not a [lack of] belief in the asset. The answer was people were a little bit afraid to have a failure on their hands. So, they would rather wait 'til it was fully done. And the sad thing about that is, you had great science, but that was going to be under resourced because people are going to wait and go study by study." He continued, "Before we start talking about all of the other levers we could pull, we need to be more efficient…We're rising to that challenge, very open-minded about it. So, we've got some good signs. We had–we've got great people. We've got a little bit play not to lose that we've had to try and do something about. And I think our people will be the competitive advantage."

As of November, Sanofi has 35 projects either in phase 3 or that have been submitted to their respective regulatory authority for approval. The company also announced its acquisition of cancer-focused Synthorx, Inc. out of California and the intent to restructure its collaboration agreement with Regeneron. On the latter score, Sanofi will gain sole global rights to rheumatoid arthritis treatment, Kevzara and ex-U.S. rights for heart drug, Praluent, while U.S. Praluent rights will belong to Regeneron.

As we anticipate the progress to come, we understand that Mr. Hudson's efforts will not be without trials and tribulations. Still, we are excited about the future and we like that the shares trade for less than 15 times estimated earnings and yield 2.8%. Our Price Target has been bumped to $58.

Tariff pressures continue to weigh on shares of **Designer Brands** (DBI – $15.03). The footwear retailer saw its stock sink to a 52-week low on Tuesday as the company released its Q3 earnings, before the shares recovered by a dollar to end the week. Quarterly income was roughly 10% below analyst estimates ($0.67 vs. $0.75 per share) even though revenue was in line with expectations. Diligent efforts to mitigate tariffs recently enacted on footwear along with decisions made by management due to abnormally warm weather weighed on results in the

quarter. The company now anticipates 80% to 90% reduction in previous tariff exposure due to actions taken.

DBI CEO Roger Rawlins explained, “Due to the unseasonably warm weather in the critically important Septober selling period, our historically busiest and most profitable time of the year, sales were affected at DSW, Camuto and in Canada. As soon as it became apparent, weather was becoming a meaningful impact, our team took a proactive stance to protect the top line and ensure our inventory positions were clean coming out of the busiest time of the year.”

He continued, “We’ve continued to work tirelessly to find ways to mitigate the impact of the new tariffs and believe we’ve been largely successful with several of the initiatives that we outlined at the start of the year, which included: moving product out of China, sharing costs with vendors, accelerating our private brand rollout, taking positions on raw material, creating alternate components in our footwear production and testing innovative in-store services.”

Aside from the obvious trade-related headwinds, we think the company is executing well in the areas that it can control. We appreciate that management continues to focus on enhancement of digital capabilities while implementing inventory discipline across its various channels. Shares now trade at 8.9 times NTM adjusted earnings expectations with a hefty dividend yield of 6.6%. While we think investors overreacted to the earnings miss, we’ve lowered our Target Price for DBI to $25.