Market Commentary Monday, December 23, 2019

December 22, 2019

EXECUTIVE SUMMARY

Rally Continues – Major Indexes Up More than 1% on the Week
Impeachment & Stocks – Trump and Clinton Rallies
Impeachment Econ Comparisons – Today is More Like 1998 than 1974
Econ Outlook – 2% Growth in 2020
Reasons for Optimism – Dividends, Buybacks and Low Interest Rates
Sentiment – AAII Bulls at a 2019 High; Fund Investors Still Loving Bonds
Inexpensive Valuations – TPS Portfolio Trades for 12.8 Times NTM Earnings and Yields 2.8%
Stock Updates – MU, COHU, INTC, KLIC, LRCX, QCOM, STX, AVGO, JBL, FDX & CCL

Market Review

All of us at *The Prudent Speculator* wish our readers a joyous holiday. Certainly, it has been a joyous year thus far in stocks, and the equity rally continued last week, with the major averages climbing well better than 1%. Growth again led the charge, with the Russell 3000 Growth index gaining 1.95%, but the 1.53% advance for the Russell 3000 Value index was hardly disappointing, especially considering that benchmark's double-digit percentage return since the end of August.

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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
-1.15	6.18	6.77	14.03	11.26	8.72	25.72	59.54	137.85	LEGATRUU Index	Global Aggregate Bond Index
-0.51	8.54	9.00	13.39	16.22	20.74	42.83	84.01	166.50	LBUSTRUU Index	U.S. Aggregate Bond Index
8.54	24.98	27.54	52.91	80.50	153.24	254.07	290.70	312.19	INDU Index	Dow Jones Industrial Average
9.93	25.44	27.26	34.74	45.83	96.19	155.93	191.74	226.49	NYA Index	NYSE Composite Index
10.69	28.69	32.18	39.70	57.13	136.22	250.08	263.40	226.00	RUO Index	Russell 2000 Growth Index
14.11	22.43	23.44	13.02	41.83	95.85	178.56	177.30	530.68	**RUJ Index**	**Russell 2000 Value Index**
12.36	25.65	27.89	25.77	49.76	115.74	213.62	220.11	365.78	RUT Index	Russell 2000 Index
10.18	35.31	38.23	68.98	92.82	189.59	311.66	346.49	187.90	RAG Index	Russell 3000 Growth Index
11.24	26.05	27.59	28.73	47.74	118.72	205.00	202.06	313.65	**RAV Index**	**Russell 3000 Value Index**
10.70	30.64	32.85	47.82	69.29	152.59	255.76	270.55	257.88	RAY Index	Russell 3000 Index
8.11	30.50	32.65	63.77	86.09	183.44	301.20	330.56	203.10	SGX Index	S&P 500 Growth Index
13.84	31.70	33.91	36.65	56.85	129.72	216.50	207.50	256.61	**SVX Index**	**S&P 500 Value Index**
10.74	31.04	33.20	50.56	72.32	157.64	259.52	268.30	234.70	SPX Index	S&P 500 Index
8.06	29.34	31.35	54.32	66.59	174.97	318.19	368.74	311.30	SPXPG Index	S&P 500 Pure Growth Index
13.57	24.95	26.79	26.75	41.74	134.18	268.72	284.49	532.01	SPXPV Index	S&P 500 Pure Value Index
11.26	10.84	16.91	36.04	49.32	149.54	242.52	293.72	544.39	BRK/B Equity	Berkshire Hathaway Inc

As of 12.20.19. Source Kovitz Investment Group using data from Bloomberg

Interestingly, stocks continued to move higher despite the House of Representatives passing two articles of impeachment, abuse of power and obstruction of Congress, against President Trump. While it would seem highly unlikely at this point that the required 67 members of the Senate will vote to convict, the charges obviously are a serious matter, with the current Commander in Chief only the third president since America's founding to be impeached—note that impeachment proceedings were initiated against President Nixon, but he resigned before the House would have voted to formally impeach.

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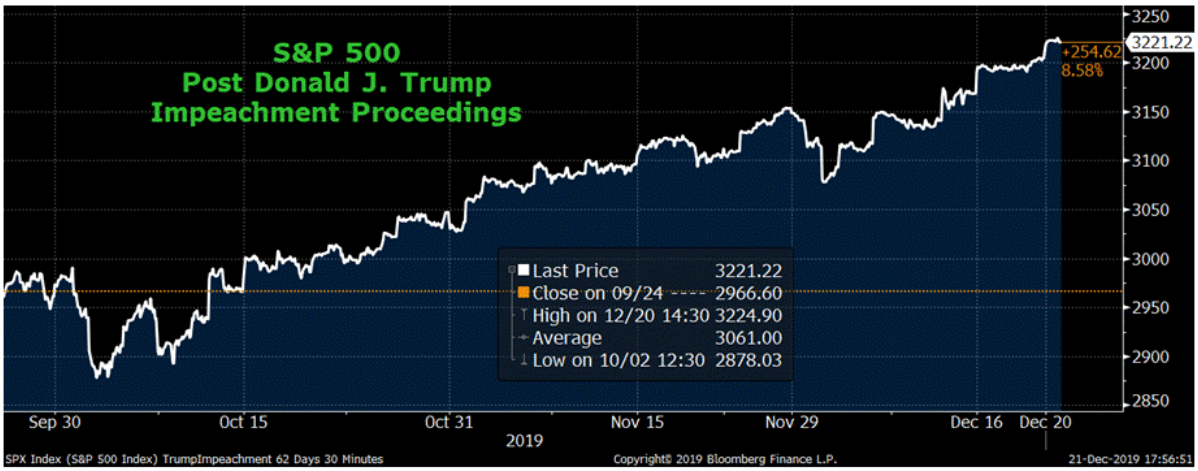
THE PRUDENT SPECULATOR
Trump Impeachment Equity Rally

House Speaker Pelosi formally announced an Impeachment Inquiry into President Trump on Sept. 24, 2019, but stocks have moved sharply higher in the three months since. Certainly, Impeachment is a serious matter, but the equity markets have been far more concerned with the health of the U.S. economy and the easing of trade tensions with China, while the likelihood of the Senate voting to convict would seem remote.



Of course, thus far, the equity market has performed just fine, given the goings-on on Capitol Hill, which is not without precedent. While *The Wall Street Journal* pointed out, "When Andrew Johnson was impeached in 1868, stocks did very little while bonds rallied, according to calculations by Craig Botham, an economist at Schroders," the S&P 500 soared in the 12 months that followed the 1998 Impeachment of President William Clinton.

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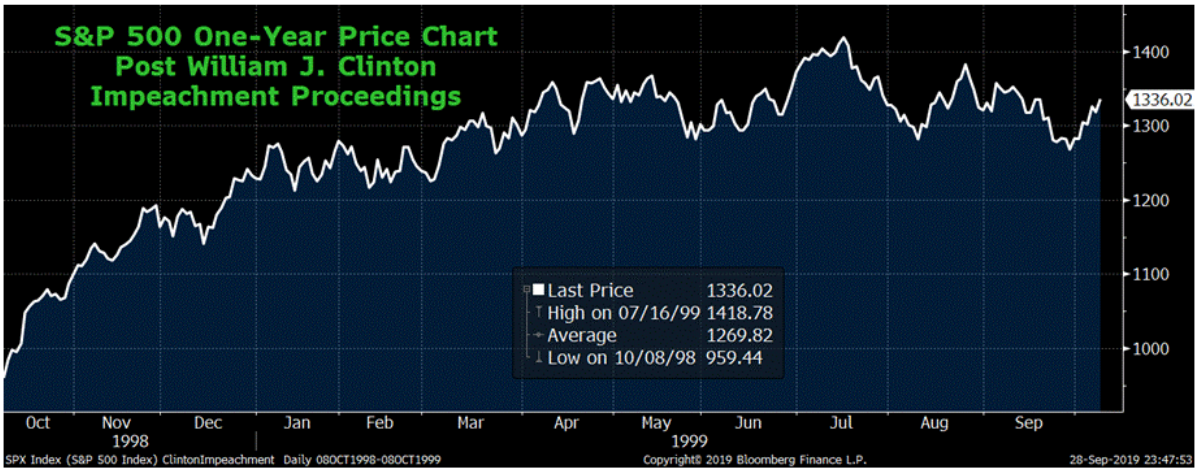
THE PRUDENT SPECULATOR
Clinton Impeachment Equity Rally

No doubt, it was easier for stocks to rebound, given that a lot of bad news was priced in after equities had endured a Bear Market in the months leading up to the commencement of Impeachment Proceedings against President Clinton on October 8, 1998, but the S&P 500 soared from 959.44 that day to 1336.02 one year later, a whopping gain of 39%, not counting dividends or the impact of their reinvestment.



To be sure, there were plenty of other market moving events leading up to that time span, including the Asian currency crisis and the blow-up of Long-Term Capital Management, which had led to a big market downturn prior to October 8, 1998, when Clinton impeachment proceedings commenced, but the economy was then growing solidly and inflation was below 2%.

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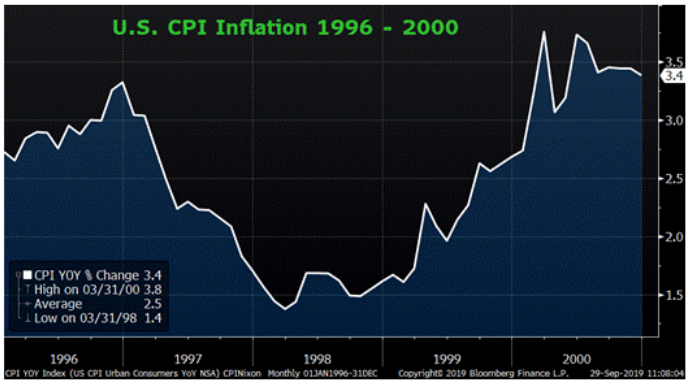
THE PRUDENT SPECULATOR
Clinton Impeachment Econ Numbers



While U.S. stocks endured a big selloff in 1998, due in large part to the Asian economic crises and the Russian financial crisis, not to mention the collapse of the Long Term Capital Management hedge fund, domestic GDP growth generally remained healthy, staying above 3% on a real basis throughout that turbulent year, and inflation also was below the Federal Reserve's preferred 2% level.

There is no assurance that President Trump will be acquitted of the charges against him (and we don't know if the equity markets would rise, fall or yawn if he were convicted), as was the case when President Clinton was acquitted on February 12, 1999, but the economic situation today,…

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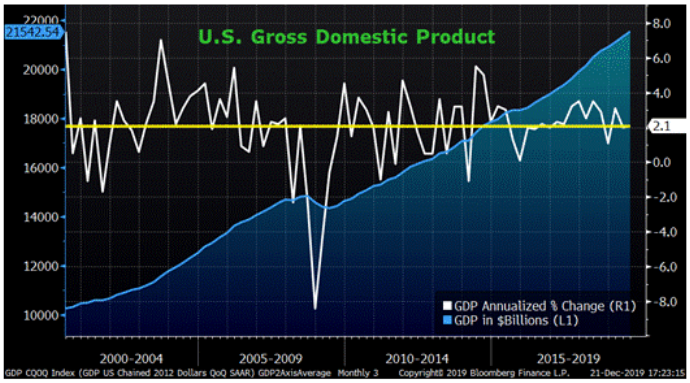
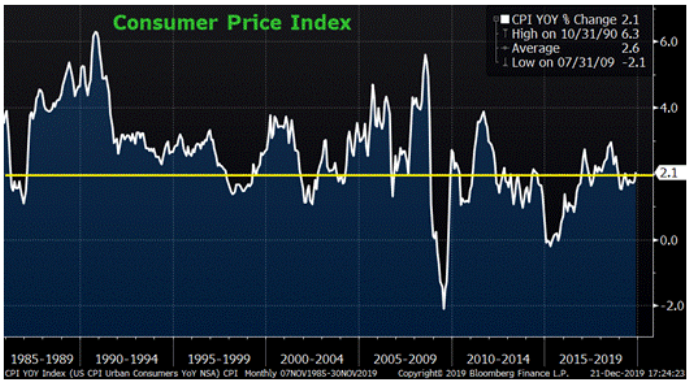
Trump Impeachment Econ Numbers





While U.S. GDP growth in Q3 ’19 came in at a 2.1% annualized real (inflation-adjusted) rate, dipping from the 3.1% rate turned in for Q1 ’19, it is about average since 2000. True, some think a recession is imminent, due in large part to trade tensions, but even a modest downturn would still see the economy expand on a nominal basis and the Federal Reserve today is actually worried about inflation being too low!

…much more closely resembles that of two decades ago, than what was seen during the Nixon turmoil.

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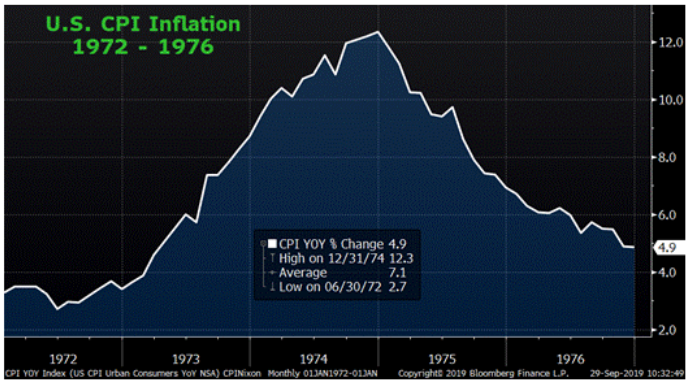
Nixon Impeachment Econ Numbers



While there were other significant headwinds blowing, including the collapse of the Bretton Woods system, the U.S. dollar devaluation under the Smithsonian Agreement and the outbreak of the 1973 oil crisis, the American economy was already in recession and inflation was soaring when the Impeachment process was initiated against President Richard Nixon in February 1974.

As an aside and illustrating why we think time in the market trumps market timing, the S&P 500 closed at 93.26 the day the Nixon impeachment process was formally initiated on February 6, 1974. The S&P plunged to as low as 62.28 on October 3, 1974, though by February 6, 1976, the index was at 99.46. That may sound like a not-so-great two years, but dividends were generous in those days, so the total return for the S&P was 16.42%, or 7.90% on an annualized basis.

Given that most think the U.S. economy is likely to muddle along next year, with GDP growth in the 2% range,…

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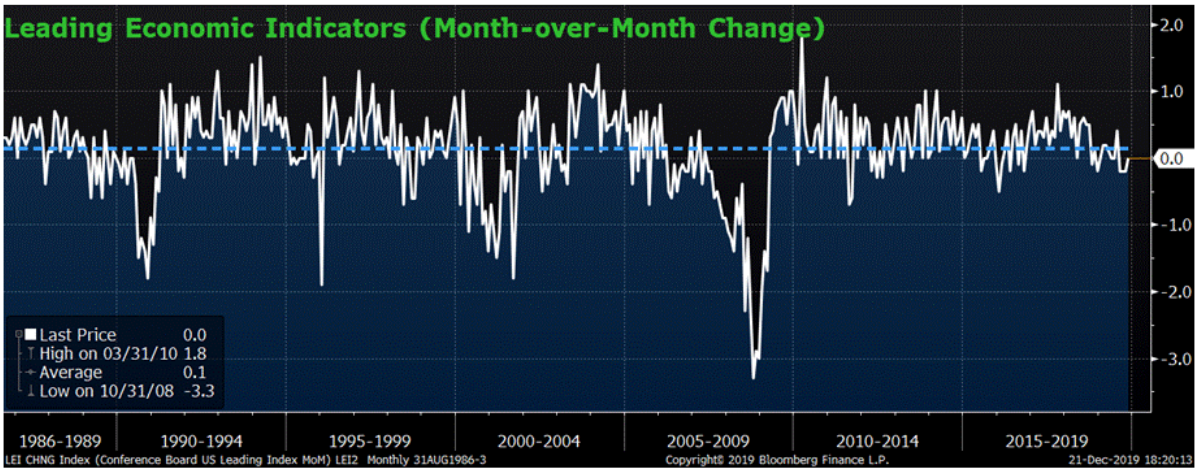
THE PRUDENT SPECULATOR
Forward-Looking November LEI = 0%

The forward-looking index of Leading Economic Indicators was flat on a month-over-month basis in November, while the October reading was revised down to a 0.2% decline. Strength in residential construction, financial markets and consumers' outlook offset weakness in manufacturing and labor markets, said the Conference Board, which now looks for GDP growth to stabilize around 2% in 2020.



…we continue to believe that corporate profits and balance sheets will remain healthy, which should support rising dividend payouts,…

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THE PRUDENT SPECULATOR
Dividends Provide Handsome Income

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2019 (as of 12.19.19)	354	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2020 (Est.)	$63.05
2019 (Est.)	$59.13
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88

Source: Bloomberg. As of 12.20.19

…and further hefty stock buybacks.

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THE PRUDENT SPECULATOR
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 Q3 2019 BUYBACKS			Q3 2019 Buybacks	12-Months Sep,'19	12-Months Sep,'18	5-Year Buybacks	10-Year Buybacks	Indicated Dividend
Company	Ticker	Sector	$ Million	$ Million	$ Million	$ Million	$ Million	$ Million
Apple	AAPL	Information Technology	$17,635	$69,714	$75,265	$247,797	$320,049	$14,808
Bank of America	BAC	Financials	$7,626	$25,627	$19,732	$60,790	$65,685	$7,447
Wells Fargo	WFC	Financials	$7,459	$24,757	$16,518	$68,966	$87,356	$9,877
JPMorgan Chase	JPM	Financials	$6,949	$23,178	$18,863	$68,851	$90,405	$11,511
Alphabet	GOOGL	Communication Services	$5,696	$14,948	$8,526	$31,692	$32,610	$0
Oracle	ORCL	Information Technology	$5,519	$31,816	$21,366	$74,484	$105,087	$4,852
Citigroup	C	Financials	$4,978	$12,855	$15,800	$53,997	$57,889	$4,608
Microsoft	MSFT	Information Technology	$4,912	$20,711	$11,895	$74,488	$116,365	$15,576
Intel	INTC	Information Technology	$4,521	$11,874	$8,464	$34,421	$65,163	$5,582
LyondellBasell	LYB	Materials	$3,240	$4,805	$801	$15,507	$21,803	$1,829
Procter & Gamble	PG	Consumer Staples	$3,000	$6,751	$5,754	$24,090	$53,999	$7,458
Charter Communications	CHTR	Communication Services	$2,767	$5,753	$7,181	$22,283	$23,066	$0
Starbucks	SBUX	Consumer Discretionary	$2,255	$10,334	$7,196	$23,269	$26,278	$1,963
Visa	V	Information Technology	$2,132	$8,718	$7,286	$33,238	$46,605	$2,072
Mastercard	MA	Information Technology	$1,803	$6,553	$5,156	$21,721	$30,291	$1,803
DaVita	DVA	Health Care	$1,764	$1,837	$1,643	$4,973	$5,876	$0
Facebook	FB	Communication Services	$1,739	$8,661	$13,886	$26,001	$29,756	$0
Johnson & Johnson	JNJ	Health Care	$1,628	$10,128	$2,875	$35,636	$60,511	$10,029
Morgan Stanley	MS	Financials	$1,538	$5,633	$5,664	$21,297	$24,020	$3,045
McDonald's	MCD	Consumer Discretionary	$1,468	$4,458	$5,029	$31,806	$44,772	$3,797
Top 20			**$88,629**	**$309,111**	**$258,900**	**$975,307**	**$1,307,586**	**$106,257**
S&P 500			**$175,886**	**$770,135**	**$720,397**	**$3,114,135**	**$5,160,989**	**$546,855**
Top 20 % of S&P 500			**50.39%**	**40.14%**	**35.94%**	**31.32%**	**25.34%**	**19.43%**

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

And, with interest rates likely to remain near historic lows, we continue to like how equities compare to other investment options from an income perspective,…

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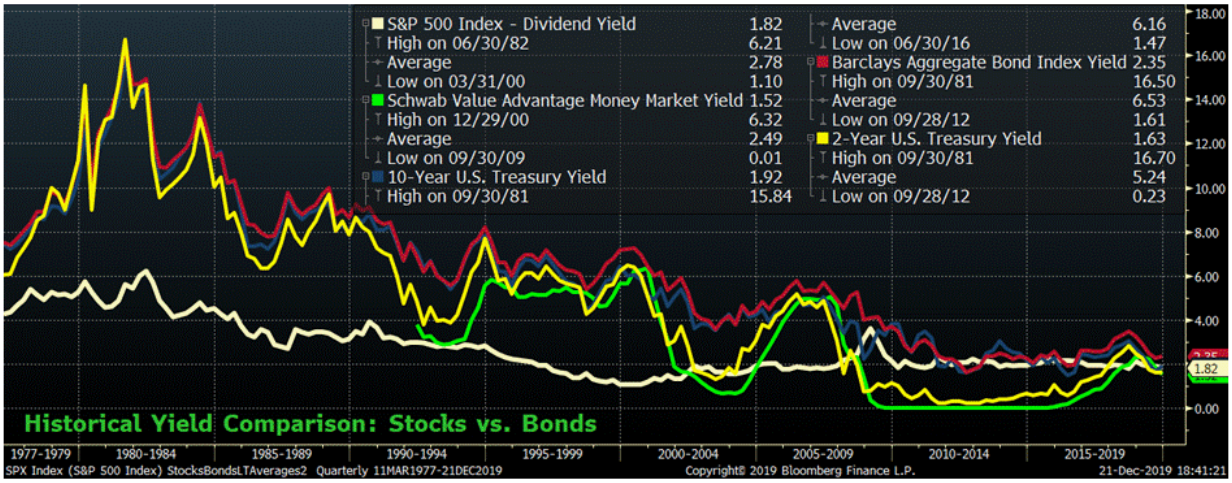
THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for bonds, U.S. Treasuries and money market funds, the current payout on the S&P 500 (1.82%) is still very generous versus the income provided by fixed income. And, the comparison to the average yields for all of the securities below over the past four-plus decades very much favors equities.



…even as we concede that the all-time market highs have finally led to a increase in Bullish sentiment,…

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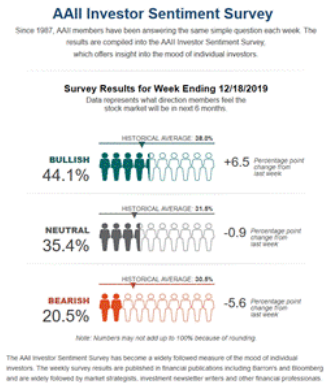
THE PRUDENT SPECULATOR
AAII Sentiment – Higher Bullishness

After dipping to 20.3% on October 9, 2019, the lowest in three-and-one-half years, expectations that stocks will rise over the next six months, has now jumped to 44.1%. While those of us who like the contrarian nature of the AAII Sentiment Survey would prefer more pessimism, the current level of optimism is not too far from the 38.0% normal reading, while stocks generally have done fine over the ensuing 6-month periods when the Bull-Bear Spread is near today's +23.6% level.



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.0											
BELOW	-54.0	8.0	858	0.25%	0.21%	1.18%	1.05%	3.27%	2.89%	6.51%	5.80%
ABOVE	8.1	62.9	831	0.16%	0.15%	0.49%	0.41%	1.98%	1.75%	4.54%	4.05%
Ten Groupings of 1689 Data Points											
1	-54.0	-14.6	169	0.36%	0.30%	1.49%	1.25%	4.41%	3.82%	8.43%	7.17%
2	-14.4	-7.0	174	0.42%	0.39%	1.28%	1.15%	3.87%	3.54%	6.94%	6.27%
3	-6.8	-1.0	169	0.27%	0.24%	1.62%	1.53%	3.23%	2.84%	6.78%	6.10%
4	-0.9	3.3	164	0.15%	0.13%	0.99%	0.92%	2.42%	2.10%	5.77%	5.36%
5	3.4	8.0	182	0.04%	0.01%	0.54%	0.45%	2.42%	2.18%	4.74%	4.24%
6	8.1	12.2	155	0.17%	0.15%	0.48%	0.39%	1.71%	1.49%	4.67%	4.16%
7	12.2	16.6	169	0.17%	0.15%	0.84%	0.76%	2.77%	2.56%	5.41%	4.98%
8	16.6	22.0	169	0.17%	0.15%	0.62%	0.54%	2.07%	1.81%	5.87%	5.44%
9	22.0	29.5	169	0.06%	0.05%	0.23%	0.15%	1.97%	1.72%	4.14%	3.57%
10	29.6	62.9	169	0.26%	0.24%	0.26%	0.18%	1.38%	1.15%	2.59%	2.14%

From 07.31.87 through 11.19.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

…though any potential cause for contrarian concern, in our view, is very much tempered by the continued stampede out of stocks by exchange traded and mutual fund holders,…

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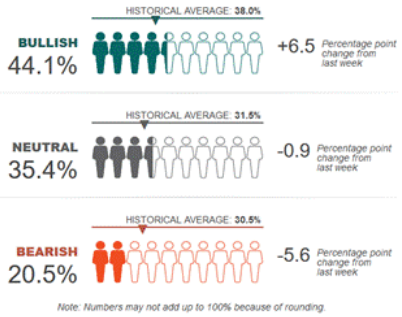
THE PRUDENT SPECULATOR
Sentiment: Saying vs. Doing

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 12/18/2019

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.

December 19, 2019 - Optimism among individual investors about the short-term direction of the stock market is at its highest level of the year. Bullish sentiment, expectations that stock prices will rise over the next six months, jumped 6.5 percentage points to 44.1%. Optimism was last higher on October 3, 2018 (45.7%). Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 5.6 percentage points to 20.5%. Pessimism was last lower on April 24, 2019 (20.2%).

The latest Sentiment Survey of AAII members showed a jump in optimism to 44.1%, the highest level of Bullishness this year. Meanwhile, investors have been voting with their feet, heavily selling stocks in the latest ICI calcs of exchange traded and mutual fund flows.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	12/11/2019	12/4/2019	11/26/2019	11/20/2019	11/13/2019
Total Equity	-10,906	-1,054	-23	-5,632	1,591
Domestic	-9,628	-3,256	609	-7,048	-3,328
World	-1,278	2,202	-631	1,416	4,919
Hybrid	-1,988	-703	-748	-345	-268
Total Bond	12,484	12,035	8,665	13,262	6,680
Taxable	10,193	9,763	5,997	10,525	4,873
Municipal	2,291	2,273	2,668	2,737	1,806
Commodities	-445	-446	243	-355	-1,036
Total	-855	9,832	8,137	6,929	6,967

Source: Investment Company Institute

…and the long-playing love affair so many frightened folks have had with fixed income.

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THE PRUDENT SPECULATOR
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 5 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	-12,518	29,139	Oct-18	-9,657	-27,700
Feb-15	5,547	30,321	May-16	-14,252	16,925	Aug-17	-22,771	25,078	Nov-18	2,783	-7,459
Mar-15	-1,494	4,905	Jun-16	-15,530	16,623	Sep-17	-9,775	33,440	Dec-18	-28,953	-49,512
Apr-15	-34,681	11,027	Jul-16	292	33,575	Oct-17	3,166	36,110	Jan-19	-21,195	29,308
May-15	-17,287	5,010	Aug-16	-9,956	30,859	Nov-17	-4,417	19,788	Feb-19	3,632	45,138
Jun-15	-7,023	6,324	Sep-16	-5,713	24,669	Dec-17	-9,054	19,491	Mar-19	-3,654	38,412
Jul-15	-14,864	-1,255	Oct-16	-23,109	13,855	Jan-18	10,778	46,287	Apr-19	-5,307	40,565
Aug-15	-18,569	-18,122	Nov-16	22,993	-13,289	Feb-18	-41,444	2,706	May-19	-24,652	21,332
Sep-15	-4,725	-10,849	Dec-16	18,859	-4,142	Mar-18	-22,152	14,148	Jun-19	-11,997	39,771
Oct-15	-807	15,397	Jan-17	5,097	31,037	Apr-18	-7,403	24,176	Jul-19	-7,889	44,811
Nov-15	654	-5,573	Feb-17	17,613	33,991	May-18	10,068	11,749	Aug-19	-29,909	22,304
Dec-15	476	-25,043	Mar-17	9,411	36,562	Jun-18	-21,004	16,995	Sep-19	-4,650	38,482
Jan-16	-27,222	7,686	Apr-17	-8,266	22,064	Jul-18	1,007	22,495	Oct-19	-24,556	43,209
Feb-16	-9,108	11,915	May-17	-10,725	33,070	Aug-18	-6,660	17,219	**Totals:**	**-466,994**	**1,021,867**
Mar-16	7,711	29,296	Jun-17	-7,944	29,372	Sep-18	886	18,526			

While we cannot expect stock prices to move only in a northerly direction in the near term, even as there is historical precedent for a Santa Claus Rally, we see no reason to alter our enthusiasm for our broadly diversified portfolios of what we believe to be undervalued stocks.

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
Managed Account Ports & Benchmarks

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	14.7	12.8	1.2	2.2	2.8
Select Value	15.3	13.4	1.3	2.1	2.5
Select Dividend	15.4	13.4	1.0	2.2	3.1
Select Focused Dividend	14.5	13.0	1.0	2.3	3.1
Select Focused Value	15.4	14.1	1.5	2.5	2.5
Select SMID Dividend	14.1	12.5	0.6	1.6	2.9
Russell 3000	22.8	20.6	2.1	3.4	1.8
Russell 3000 Growth	29.6	26.4	3.2	8.0	1.1
Russell 3000 Value	18.3	16.7	1.6	2.1	2.4
Russell 1000	22.2	20.1	2.3	3.5	1.8
Russell 1000 Growth	28.7	25.4	3.6	8.5	1.1
Russell 1000 Value	17.9	16.4	1.7	2.2	2.5
S&P 500 Index	21.5	19.6	2.3	3.6	1.8
S&P 500 Growth Index	27.0	24.0	3.9	5.7	1.4
S&P 500 Value Index	17.4	16.3	1.6	2.5	2.3
S&P 500 Pure Value Index	13.0	11.9	0.6	1.3	2.7

As of 12.21.19. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Stock Updates

Jason Clark and Chris Quigley offer updates on 11 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/.

Memory maker **Micron Technology** (MU – $55.06) posted earnings per share of $0.48, versus the $0.47 estimate, in fiscal Q1 2020. MU had total revenue of $5.1 billion, versus the $5.0 billion estimate. The positive results resulted in shares extending the YTD climb by a couple of percentage points to more than 70%. Micron expects Q2 2020 EPS between $0.29 and $0.41 per share, around the analyst consensus median of $0.36. The company expects the upcoming quarter's revenue to come in between $4.5 billion and $4.8 billion. The gross profit margin is expected to be between 26.6% and 27.4%.

CEO Sanjay Mehrotra said on the earnings call, "Micron is off to a solid start in our fiscal 2020. Despite a challenging industry environment, we delivered good profitability, maintained positive free cash flow and strengthened our product portfolio. Industry supply-demand balance continues to improve in both DRAM and NAND. Recent trends in our business give us optimism that our fiscal second quarter will mark the bottom for our financial performance, which we expect to

start improving in our fiscal third quarter with continued recovery in the second half of calendar 2020. Our strategy to increase high-value solutions, enhance customer engagement and improve our cost structure is producing results."

Overview

Solid Start to FY-20 Against Backdrop of Challenging Industry Environment

- Delivered good profitability
- Maintained positive free cash flow
- Strengthened our product portfolio

Optimism for FQ2-20 Bottom with Continued Recovery in 2HCY20

- Industry supply-demand balance continues to improve in both DRAM and NAND
- Recent business trends give us optimism

Continued Excellent Progress on Key Strategic Objectives

- Increased mix of high value solutions
  - Expected to grow from 50% of NAND bits in FY-19 to over 66% in FY-20; up to 80% in FY-21
- Improved cost structure
- Enhanced customer engagement

4 December 18, 2019 Micron

Mr. Mehrotra continued, "A portion of the strength in demand in the second half of calendar 2019 may be attributable to inventory builds in China, and we expect some of this customer inventory to normalize sometime in calendar 2020. As a result, we expect calendar 2020 industry DRAM bit demand growth to be in the mid-teens percent range year-over-year, which is somewhat lower than our prior outlook due to stronger demand in calendar 2019. We expect industry bit supply growth for calendar 2020 to be somewhat less than the demand as industry bit supply growth decelerates due to industry CapEx reductions. We continue to target our long-term bit supply growth CAGR to be close to the industry's long-term bit demand growth CAGR of mid- to high teens. Turning to NAND…We expect calendar 2020 industry bit supply to be lower than industry bit demand as a result of industry CapEx reductions, and consequently, we expect the industry environment to improve through calendar 2020…As we go through the transition to replacement gate, we expect our multi-year supply growth CAGR to be in line with the industry's demand CAGR of approximately 30%."

CFO Dave Zinsner added, "Micron's fiscal second quarter is the seasonally weakest quarter for the industry. We continue to exercise pricing discipline and reduce business at customers where

pricing does not meet our objectives, and this limits our business opportunity within the quarter. As we approach the trough in this cycle, at the midpoint of our guidance, fiscal Q2 revenue will be 60% higher and gross margins 9 percentage points higher than in the prior trough, which occurred in the fiscal third quarter of 2016. Micron's solid financial performance and investment-grade balance sheet demonstrate that the new Micron is indeed structurally stronger with higher lows and better cross-cycle revenue growth and profitability."

MU finished the quarter with approximately $2.7 billion in net cash and $11 billion of total liquidity. While analysts project the company to earn just $2.30 per share in fiscal 2020, the company is expected to see a solid turnaround with EPS of $5.13 and $6.68 in fiscal 2021 and fiscal 2022, respectively. MU shares have certainly been volatile, gaining in the first part of the year, dropping in Q2, then making all of it back plus some in Q3, and so far, having a terrific Q4, knock on wood. We believe long-term catalysts like an improving global macroeconomic backdrop, a possible more-than-phase-one resolution of the U.S.-China trade spat and growing NAND demand are qualitative reasons to have MU in a broadly diversified portfolio. In addition, the company has a strong balance sheet and reasonable valuation metrics. Our Target Price for MU has been lifted to $68.

On the Micron "bottom" call, we also have boosted our Target Prices for our other semiconductor and data storage stocks as follows: **Cohu** (COHU – $22.31): $24; **Intel** (INTC – $58.95): $67; **Kulicke & Soffa** (KLIC – $26.92): $30; **Lam Research** (LRCX – $297.41): $306; **Qualcomm** (QCOM – $88.85): $103 and **Seagate Tech** (STX – $59.62): $64.

Looking at another of our chip stocks, two weeks ago, shares of **Broadcom** (AVGO – $319.00) tumbled after management indicated that the company's wireless business was not a "core" business. The comments caused much consternation among investors and analysts and shares fell as a result. Last week, investors—the ones that didn't bail, anyway—were offered some justification for the comments. *The Wall Street Journal* reported that Credit Suisse was helping the company find a buyer for the unit, which supposedly could fetch up to $10 billion. Shares have rebounded nicely off of the earnings-related low.

We are fans of AVGO's history of 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 (for an IT name) dividend yield of 4.1%. And speaking of the dividend, the ex-date was on Friday, with the $4.25 per share quarterly payout a sizable figure when considering the recent performance of the stock. As we also noted last week, 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 have boosted our Target Price to $432.

Electronic manufacturing services firm **Jabil Inc.** (JBL – $41.33) earned $1.05 per share in Q1 of fiscal 2020 (vs. $0.94 est.), a 17% improvement over the prior-year quarter. Net revenue tallied $7.5 billion, an increase of 15% year-over-year. The impressive quarter sent shares soaring to a 14-year high of nearly $44, before the stock pulled back sharply to close the week up more than 3% for the five trading days.

CEO Mark T. Mondello raised guidance for the rest of the fiscal year, “We anticipate revenues will be up roughly $1.4 billion year-on-year when compared to fiscal ’19. More importantly, we see the income coming through side by side with the increase to revenue. Therefore, core operating income will now be in the neighborhood of $980 million for the year, confirming our core margin target of 3.7%. This improved income outlook for the year translates to $3.60 a share in core earnings, up $0.15 from the outlook we offered in September. Lastly, we remain committed to delivering free cash flow in excess of $500 million for the year.

Offering color around the firm’s capital returns program, CFO Michael Dastoor added, “During Q1, we repurchased approximately 2.6 million shares for $96 million as part of our 2-year $600 million authorization we announced in September. As far as buybacks are concerned, we did $96 million in Q1. I think in September, we talked about a $600 million authorization. $250 million of that was going to be in FY ’20, $350 million in ’21. That still stands. So, we’ll probably do the balance of the $250 million over the next 3 quarters in FY ’20.”

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THE PRUDENT SPECULATOR
JBL – Diverse End-Market Mix

FY20 END-MARKETS

JABIL

DIVERSIFIED MANUFACTURING

$ in billions	FY19	FY20E
Mobility	$3.3	$3.1
Healthcare & Packaging	$3.2	$4.2
Edge Device & Lifestyle	$3.4	$2.9
Total Revenue	$9.9	$10.2
Core Operating Margin	4.0%	4.1%

ELECTRONICS MANUFACTURING

$ in billions	FY19	FY20E
Automotive & Semi-Cap	$1.9	$2.5
Digital Print & Retail	$2.4	$2.6
Industrial & Energy	$2.5	$2.8
Wireless / 5G & Cloud	$4.3	$4.6
Enterprise	$4.3	$4.0
Total Revenue	$15.4	$16.5
Core Operating Margin	3.1%	3.5%

See U.S. GAAP to non-GAAP definitions located at https://investors.jabil.com/

We are pleased that Jabil continues to execute its business plan well, while maintaining growth discipline, particularly given recent headwinds in the global manufacturing environment. The firm is positioned to benefit from continued tailwinds in Cloud, 5G, and the electrification of automobiles. The company’s strong performance across a diversified business platform,

reasonable valuation and generous capital return program have led us to bump our Target Price to $52.

Shares of **FedEx** (FDX – $148.12) dropped more than 10% after the company reported fiscal Q2 2020 results that trailed analyst estimates. The package and freight delivery giant earned $2.51 per share (vs. $2.78 est.) and had revenue of $17.3 billion (vs. $17.7 billion est.). Guidance for the balance of fiscal 2020 was also lowered by management. FDX now expects to earn between $10.25 and $11.50 per share for the year, versus September's estimated range of $11.00 to $13.00.

CEO Fred Smith said, "The quarter just ended is an anomaly because of the compressed shipping season before Christmas, necessitating a significant bow wave of expenses to handle volumes that will largely fall in our third fiscal quarter. In addition, this quarter has seen significant effects on the industrial economy due to continuing trade disputes, including reductions in international air freight and tepid, at best, B2B domestic parcel and freight shipping. Despite these issues, we remain highly confident in our strategies which we believe will begin to bear fruit by our fourth fiscal quarter and then into FY '21, absent negative macroeconomic developments."

Mr. Smith continued, "As we announced last summer, FedEx is aggressively expanding North American packaged services for the rapidly growing e-commerce market to include year-round 7-day delivery, in-sourcing most SmartPost volumes formally given to the postal service, standing up more dedicated ground, large package facilities, given the remarkable growth in demand for the delivery of oversized items and new unique short-haul services… These strategies are being well received in the marketplace with record peak volume — package volumes, which are substantially above last year and well over forecast with excellent service levels and high overall customer satisfaction. In the fourth fiscal quarter, we forecast FedEx Ground margins will again be in the teens. The second area of strategic changes in FedEx Express international operations to include the completion of European ground interoperability in the fourth quarter of fiscal year '20. Also, we are taking down intercontinental capacity right after Christmas as our hopes for a restoration and trade growth expressed last June has simply not materialized due to the trade disputes. We are deferring capital expenditures, if not essential for safety service or replacement or obsolescence. Longer term, by fiscal '22 year-end, the replacement of 159 A310 and MD-10 aircraft will be complete."

The news was poorly received by analysts and investors, the former often noting concern in research notes that the challenges reach beyond the company's divorce with Amazon earlier this year. Jim Cramer, the former hedge fund investor and host of *Mad Money* piled on, telling viewers "Stop the predictions, stop the sham guidance, and take the time to figure it all out. Then, and only then, will FedEx the stock be able to bottom." And an article by *Forbes* reported that Amazon's suspension of FedEx deliveries to Prime customers by third-party sellers was related to a decline in performance based on a supply chain analysis done by Convey that supposedly reviewed 2.5 billion "shipping events" and tens of millions of packages. The on-time statistics were below what Amazon was willing to tolerate, though rival UPS's on-time statistics also fell.

Of course, piling on is easy in comparison to keeping the faith and we do share some of the same concerns related to FDX's ability to execute with a major trade dispute and a new entrant into the express shipping space (Amazon). However, we still think that Amazon's backbone air freight service, which it runs by leasing airplanes from three carriers, does not pose a major threat to FDX or UPS at this time because the service is relatively small (fleet size will be near 70 airplanes by 2021 compared to FDX's 650+ and UPS's 500) and is used exclusively for Amazon packages. Indeed, we don't want to see any of our holdings lose positive-margin revenue, but Amazon is far from dealing a death blow to either firm. And Mr. Smith proclaimed on Tuesday, "If you think about all the positive things we've said and that we're seeing as we get into 2021, we will start lapping Amazon."

We noted in our September FDX review, when FedEx also skidded after Q1 results, that we think FDX's long-term planning and decision-making will ultimately carry the day. The company is evolving quickly, and is making strategic moves as opportunities present themselves, such as the discounted 767 purchase and TNT in Europe after UPS's offer was blocked at a much higher price. The move to 7-day service is a positive, we think, as is Mr. Smith's long-term thinking. FedEx, under Mr. Smith's direction, has weathered a variety of presidents, geopolitical issues, trade crises, wars and other major events. We would be surprised if this one in particular was the one that did the company in.

We think that FedEx's strong balance sheet, modest dividend yield and position as an industry leader are things for long-term investors to like. FDX trades just above 13 times the midpoint of the revised EPS guidance, with most analysts expecting fiscal 2020 (ended May 2020) to be a trough year for the bottom line (despite the negative research notes!). NTM earnings and EPS expectations for the next two years presently stand at $12.80 and $14.48, respectively. Our Target Price for FDX has been cut to $245, but we remain long-term fans of the company and its stock.

Following a solid earnings report released on Friday by **Carnival Corp** (CCL – $50.21), news involving a collision between two of the company's ships made headlines. The Carnival Glory struck a docked Carnival Legend in Cozumel as it was maneuvering to dock itself. Latest reports are that six passengers were injured. Happily, all have received medical attention and injuries appear to be minor.

On a much more positive note, shares were buoyed over 7.5% in trading as Carnival turned an about face from last quarter, producing Q4 adjusted earnings per share that beat analyst estimates ($0.62 vs. $0.50 est.) and tallying full year adjusted EPS of $4.40. Strong bookings across North America carried the quarter, particularly for Caribbean cruises.

CEO Arnold Donald elaborated, "We believe our business is inherently capable of and we are working hard to ensure we are, in fact, doing even better. After 5 years of very strong adjusted earnings growth for our company, 2019 brought with it more than our fair share of challenges, including the abrupt regulatory change, preventing travel to Cuba, geopolitical events in Arabian Gulf, Hurricane Dorian, a costly unscheduled dry dock and multiple shipyard delays, all of which necessitated the cancellation of cruises and in many instances, resulted in shorter booking windows, negatively impacting yields."

Mr. Donald continued, “Even though these unusual events were outside our direct control, as always, we go above and beyond to accommodate our guests who are inconvenienced, providing them with generous credits towards their next cruise purchase. In total, we estimate these unusual events cost the company approximately $0.23 per share. Now, these events do have a tail effect going into 2020. And of course, the impact from these events was compounded by an unanticipated decline in consumer attitude, affecting leisure travel broadly in our Continental European source market, especially Germany. While quantifying the impact from macro conditions is always difficult, the decline in revenue yield for our Continental European brands was worth approximately $0.30 per share for fiscal 2019. Clearly, without this downturn, we would have achieved double-digit adjusted earnings per share growth, even in the face of the higher number and scale of unusual events. Unfortunately, we do see a continuation of that environment in Continental Europe into 2020.”

Certainly, we are satisfied with the latest results and the handsome rebound in the stock price, but it hasn’t exactly been fair winds and smooth sailing for Carnival. Challenges in Europe, shipyard delays and geopolitical obstacles have anchored expectations. Still, we maintain our long-term optimism for CCL and the overall cruise industry space, given favorable demographic trends. Moreover, meaningful growth opportunities in emerging economies are encouraging for global revenue diversification and the ability to rapidly reach a new customer base. CCL shares still trade at a reasonable 11.3 times management’s latest FY 2020 guidance and now sport a dividend yield of 4.0%. Our Target Price has been elevated to $70.