Market Commentary Monday, February 3, 2020

February 3, 2020

EXECUTIVE SUMMARY

TPS 640 – Coming Late Tuesday
Target Prices – Updated Listing to be Posted Soon
Week in Review – Ugly Five Days of Trading
January Gloom – Average Stock Down 3.8% in 2020
Volatility – Stock Prices Will Gyrate
Coronavirus – Perspective
Jerome Powell Speaks – Interest Rates Likely to Remain Low
GDP Outlook – U.S. Economy Should Muddle Along
Stocks vs. Bonds – Falling Yields Add to the Appeal of Equities
Scary Events Perspective – S&P Has Returned 64% Since 2016 Brexit Vote
Zack Tart – New Member of our Team
Stock News – Updates on AAPL, MSFT, LRCX, KLIC, GLW, BHE, ALK, AXS, PFE, RDS/A, NSC, ADM, MDC, IP, CE, CAT & MAN

Market Review

Work is underway on the February edition of *The Prudent Speculator*. If all goes according to plan, *TPS 640* will be posted by late evening on Tuesday, February 4. This month, our *Graphic Detail* takes a look at what 2020 might bring based on historical precedents and we examine various valuation metrics. In the interim, we will be posting updated Target Prices to theprudentspeculator.com.

It was a miserable beginning and end to the trading week, capped by a 600-plus-point plunge in the Dow Jones Industrial Average on Friday,…

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THE PRUDENT SPECULATOR
Outsized Dow Daily Moves

The 603-point plunge in the DJIA on 1.31.20 wasn't pleasant, but there have been 667 other days (including 5 in 2019, when the index returned a whopping 25.3%) in which the Dow lost at least 2.09% in a single day.

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		30	11	6	1	4	4	7	15	7	1	86
Years Ending in 1		60	3	1	1	0	3	3	11	17		99
Years Ending in 2		63	3	0	4	0	2	0	21	2		95
Years Ending in 3		34	4	1	1	5	1	1	4	1		52
Years Ending in 4		16	0	1	0	20	0	2	0	0		39
Years Ending in 5		6	0	6	0	4	0	0	0	4		20
Years Ending in 6		7	13	0	1	0	6	2	0	5		34
Years Ending in 7		24	3	2	0	1	19	7	9	0		65
Years Ending in 8	7	19	5	1	0	3	8	11	36	14		104
Years Ending in 9	30	13	0	1	0	1	1	5	18	5		74
Totals	37	272	42	19	8	38	44	38	114	55	1	668

From 12.31.27 through 1.31.20. Days of index price return drops of more than 2.09%. SOURCE: Kovitz Investment Group using data from Bloomberg

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		19	6	2	0	7	5	5	10	8	0	62
Years Ending in 1		36	1	0	1	2	4	5	9	13		71
Years Ending in 2		59	0	0	5	0	16	1	21	2		104
Years Ending in 3		54	0	0	1	8	4	0	9	2		78
Years Ending in 4		17	0	1	0	18	9	1	0	1		47
Years Ending in 5		5	0	1	0	12	1	0	0	4		23
Years Ending in 6		3	8	0	1	1	4	0	0	2		19
Years Ending in 7		14	1	3	0	0	19	8	5	0		50
Years Ending in 8	7	33	1	0	2	3	9	8	29	6		98
Years Ending in 9	21	8	0	0	0	1	3	8	21	1		63
Totals	28	248	17	7	10	52	74	36	104	39	0	615

From 12.31.27 through 1.31.20. Days of index price return gains of more than 2.09%. SOURCE: Kovitz Investment Group using data from Bloomberg

…that pushed the major market averages into the red for January. Of course, under the surface, the month was not good, given that the average stock in the Russell 3000 dropped more than 3.8%, while Value badly trailed Growth, as evidenced by the S&P 500 Pure Growth index gaining 0.8%, versus a 6.1% loss for the S&P 500 Pure Value index.

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THE PRUDENT SPECULATOR
Average Stock Struggling in 2020

While the Russell 3000 index was off just 0.11% in January, the average stock skidded 3.85% during the month, with Value names again trailing.

Russell 3000 January 2020 Performance Attribution

Company	% Wgt	CTR	2020 TR	Symbol	Company	% Wgt	CTR	2020 TR	Symbol
Positive Contributors to Total Return (CTR)					**Negative Contributors to Total Return (CTR)**				
Microsoft	**3.83**	**0.29**	**7.9**	**MSFT**	**Exxon Mobil**	**0.90**	**-0.10**	**-11.0**	**XOM**
Apple	**4.29**	**0.22**	**5.4**	**AAPL**	Wells Fargo	0.60	-0.08	-12.8	WFC
Amazon.com	2.41	0.21	8.7	AMZN	Chevron	0.69	-0.08	-11.1	CVX
Tesla	0.23	0.10	55.5	TSLA	UnitedHealth Group	0.86	-0.06	-7.3	UNH
Alphabet Inc-Cl C	**1.33**	**0.09**	**7.3**	**GOOG**	**Bank of America**	**0.87**	**-0.06**	**-6.8**	**BAC**
Alphabet Inc-Cl A	1.33	0.09	7.0	GOOGL	**JPMorgan Chase**	**1.33**	**-0.06**	**-4.4**	**JPM**
Visa Inc	1.05	0.06	5.9	V	**Amgen**	**0.44**	**-0.05**	**-10.4**	**AMGN**
Intel	**0.83**	**0.05**	**6.8**	**INTC**	**Merck & Co**	**0.71**	**-0.04**	**-6.1**	**MRK**
Salesforce.com	0.46	0.05	12.1	CRM	**Walt Disney**	**0.78**	**-0.03**	**-4.4**	**DIS**
Mastercard	0.86	0.05	5.9	MA	**Citigroup**	**0.54**	**-0.03**	**-6.2**	**C**
Nextera Energy	0.38	0.04	10.8	NEE	3M	0.31	-0.03	-10.1	MMM
McDonald's	0.49	0.04	8.3	MCD	Dupont De Nemours	0.14	-0.03	-20.3	DD
Coca-Cola	0.67	0.04	5.5	KO	United Parcel Service	0.25	-0.03	-11.6	UPS
General Electric	0.32	0.03	11.6	GE	Anthem	0.23	-0.03	-12.2	ANTM
Home Depot	0.77	0.03	4.5	HD	Booking Holdings	0.26	-0.03	-10.9	BKNG
Servicenow	0.18	0.03	19.8	NOW	Abbvie	0.40	-0.03	-7.3	ABBV
Adobe	0.52	0.03	6.5	ADBE	**Schlumberger Ltd**	**0.16**	**-0.03**	**-16.6**	**SLB**
Lockheed Martin	0.32	0.03	9.9	LMT	Phillips 66	0.14	-0.03	-18.0	PSX
Netflix	0.44	0.03	6.7	NFLX	**Target Corp**	**0.19**	**-0.03**	**-13.6**	**TGT**
Int'l Business Machines	**0.38**	**0.03**	**7.2**	**IBM**	**Pfizer**	**0.68**	**-0.03**	**-4.0**	**PFE**
Johnson & Johnson	**1.21**	**0.02**	**2.1**	**JNJ**	US Bancorp	0.25	-0.03	-10.2	USB
Pepsico	0.60	0.02	3.9	PEP	**Caterpillar**	**0.24**	**-0.03**	**-10.4**	**CAT**
Eli Lilly	0.36	0.02	6.2	LLY	**CVS Health**	**0.30**	**-0.02**	**-8.1**	**CVS**
Southern Co	0.21	0.02	10.5	SO	Facebook	1.61	-0.02	-1.6	FB
Paypal Holdings	0.41	0.02	5.3	PYPL	**Cisco Systems**	**0.64**	**-0.02**	**-3.5**	**CSCO**
Weight in Top 25	**23.89**				**Weight in Top 25**	**13.50**			
Average Russell 3000 Member YTD Total Return = -3.85%									

Source: Kovitz Investment Group using data from Bloomberg Financial LP. As of 1.31.20

Of course, volatility is nothing new for the equity markets,…

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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%	110.2%	935	26	3.5	3/9/2009	1/17/2020
17.5%	66.9%	580	38	2.4	12/24/2018	1/17/2020
15.0%	66.6%	563	44	2.1	12/24/2018	1/17/2020
12.5%	44.0%	335	71	1.3	12/24/2018	1/17/2020
10.0%	34.6%	244	97	0.9	12/24/2018	1/17/2020
7.5%	23.5%	149	154	0.6	12/24/2018	1/17/2020
5.0%	14.7%	73	300	0.3	8/14/2019	1/17/2020

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 1.17.20. 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	13.2%	25.8%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	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%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 12.31.19. 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

…with the primary catalyst this time around being concerns about the Wuhan Coronavirus. No doubt, headlines out this weekend like *US Department of Homeland Security to enforce restrictions on travelers from China* or *All major cities in China's Hubei province under lockdown* or *As the coronavirus spreads, fear is fueling racism and xenophobia* are disconcerting. Of course, we do find it interesting that several thousand people die each week in the U.S. during flu season from pneumonia/influenza with little fanfare, yet many seem freaked out about 300+ deaths globally thus far from coronavirus.

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World Coronavirus vs U.S. Pneumonia/Flu

Wuhan coronavirus

14,543
Total cases

304
Total deaths

	Cases	Deaths
Mainland China	14,380	304
Hong Kong	13	0
Macao	7	0
Australia	12	0
Cambodia	1	0
Canada	4	0
Finland	1	0
France	6	0
Germany	8	0
India	1	0
Italy	2	0
Japan	20	0
Malaysia	8	0
Nepal	1	0
Philippines	1	0
Russia	2	0
Singapore	13	0
South Korea	11	0
Spain	1	0
Sri Lanka	1	0
Sweden	1	0
Taiwan	10	0
Thailand	19	0
United Arab Emirates	4	0
United Kingdom	2	0
United States	8	0
Vietnam	6	0

CNN Source: National and provincial health authorities (China); national health agencies (all others).
Data as of February 1, 9 p.m. ET
Graphic: Natalie Leung, CNN

Weekly U.S. Influenza Surveillance Report

Year	Week	All Deaths	Pneumonia Deaths	Influenza Deaths	Percent Due to Pneumonia and Influenza
2017-2018 Flu Season					
2017	51	59,505	3,987	359	7.3
2017	52	61,090	4,418	671	8.3
2018	1	66,134	5,156	1165	9.6
2018	2	67,495	5,583	1536	10.5
2018	3	64,647	5,412	1626	10.9
2018	4	62,780	5,187	1448	10.6
2018	5	60,974	4,877	1360	10.2
2018	6	61,110	4,689	1243	9.7
2018	7	59,779	4,599	1179	9.7
2018	8	57,793	4,426	892	9.2
2018	9	56,692	4,044	738	8.4
2018	10	57,093	4,061	507	8.0
2018	11	56,326	3,853	444	7.6
2018	12	55,766	3,792	345	7.4
2018	13	54,918	3,779	284	7.4
2018-2019 Flu Season					
2018	51	56,528	3,490	88	6.3
2018	52	56,026	3,635	141	6.7
2019	1	58,291	3,918	210	7.1
2019	2	58,343	4,052	259	7.4
2019	3	58,182	4,093	247	7.5
2019	4	57,828	3,894	275	7.2
2019	5	58,113	3,887	327	7.3
2019	6	58,485	3,889	366	7.3
2019	7	57,903	3,891	481	7.6
2019	8	57,846	3,973	475	7.7
2019	9	57,897	3,752	516	7.4
2019	10	58,468	3,744	544	7.3
2019	11	57,849	3,978	508	7.8
2019	12	57,061	3,792	480	7.5
2019	13	56,646	3,710	459	7.4
2019-2020 Flu Season					
2019	51	51,940	3,007	111	6.0
2019	52	51,591	3,079	159	6.3
2020	1	49,148	3,292	325	7.4
2020	2	42,418	2,676	279	7.0
2020	3	31,247	1,916	191	6.7

Source: https://www.cdc.gov/flu/weekly/index.htm

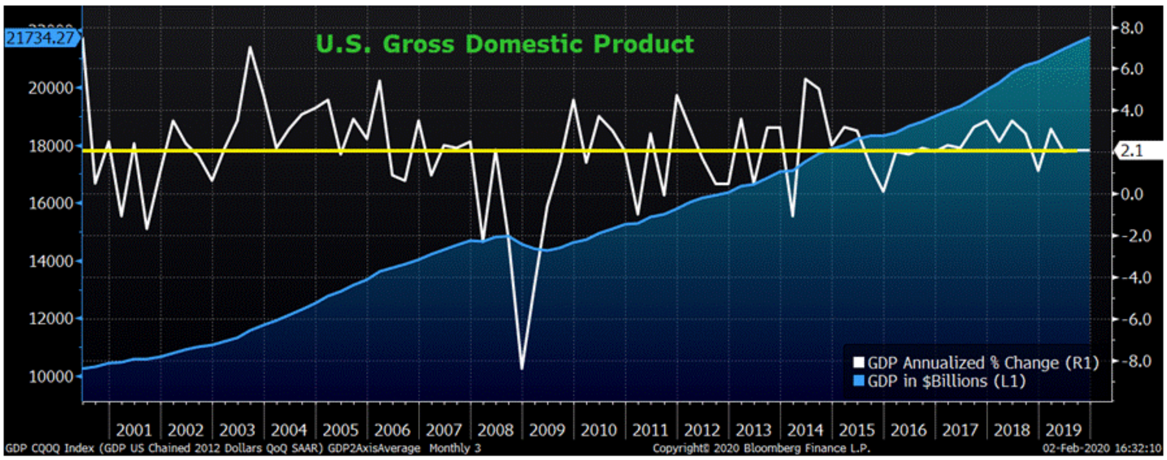
Certainty, we do not want to sound cavalier about this issue, but we have had to deal with viruses since the birth of the great Bull Market in 1982…HIV, SARS, Asian Flu, H1N1, Ebola…and yet equities have proved rewarding for those who remember that the secret to success in stocks is not to get scared out of them. And, there did seem to be a small dose of good news in the last 24 hours when it was reported that “Doctors in Thailand say they have successfully treated two Wuhan Coronavirus patients with a combination of antiviral drugs, according to a briefing on Sunday from the Ministry of Health.”

To be sure, the Coronavirus will have an impact on Chinese GDP growth, not to mention the global economy. As Federal Reserve Chair Jerome H. Powell said last week, “There will clearly be implications of course in the near term for Chinese output, and I would guess for their close neighbors…We’ll just have to see what the effect is globally…When China’s economy slows down, we do feel that.” U.S. GDP will see a headwind,…

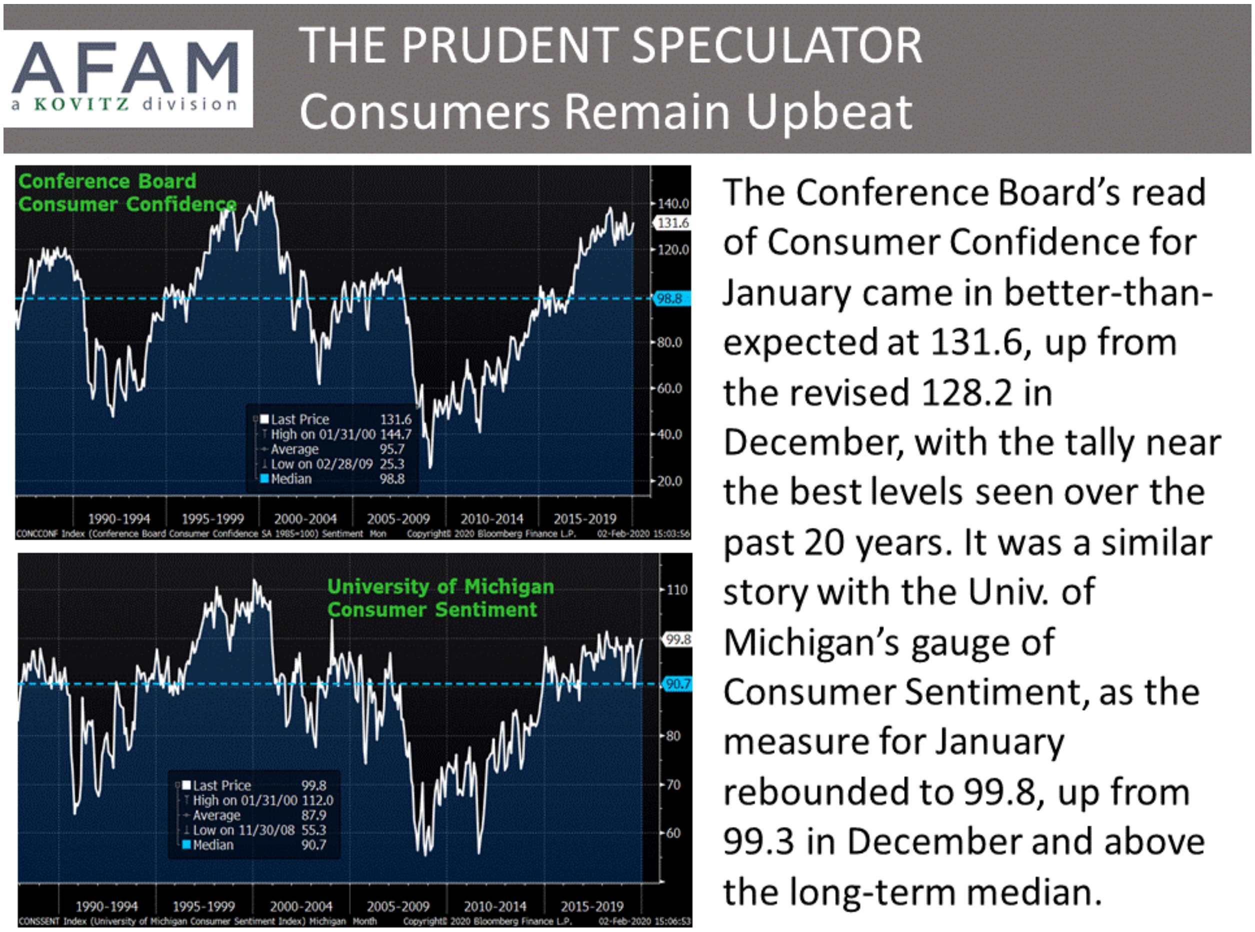
THE PRUDENT SPECULATOR

U.S. Economic Growth OK in Q4

Uncle Sam calculated Q4 '19 GDP growth at a better-than-expected 2.1% annualized real (inflation-adjusted) rate, equal to the rate in Q3. True, 2.1% growth is hardly robust (it is about average since 2000) and many are worried that trade battles and the effects of the Coronavirus will damage the global economy this year, but even a modest downturn would still see the U.S. economy expand on a nominal basis.



…but we think the domestic economy will continue to muddle along, as the most recent batch of statistics have ranged from healthy,…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THE PRUDENT SPECULATOR
Consumers Remain Upbeat
Conference Board
Consumer Confidence
Last Price 131.6
High on 01/31/00 144.7
Average 95.7
Low on 02/28/09 25.3
Median 98.8
140.0
131.6
120.0
98.8
80.0
60.0
40.0
20.0
1990-1994
1995-1999
2000-2004
2005-2009
2010-2014
2015-2019
University of Michigan
Consumer Sentiment
Last Price 99.8
High on 01/31/00 112.0
Average 87.9
Low on 11/30/08 55.3
Median 90.7
110
99.8
90.7
80
70
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1990-1994
1995-1999
2000-2004
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2010-2014
2015-2019
The Conference Board's read of Consumer Confidence for January came in better-than-expected at 131.6, up from the revised 128.2 in December, with the tally near the best levels seen over the past 20 years. It was a similar story with the Univ. of Michigan's gauge of Consumer Sentiment, as the measure for January rebounded to 99.8, up from 99.3 in December and above the long-term median.

…to good,…

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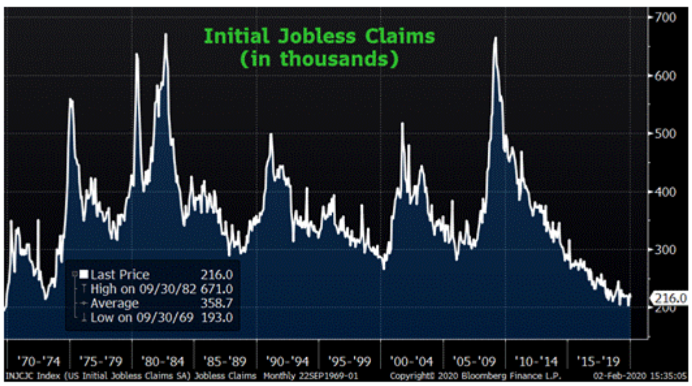
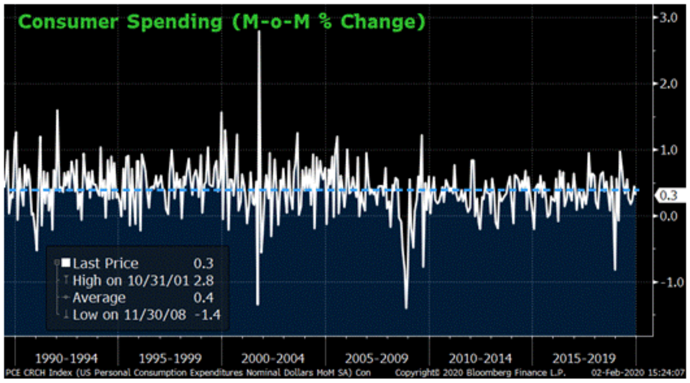
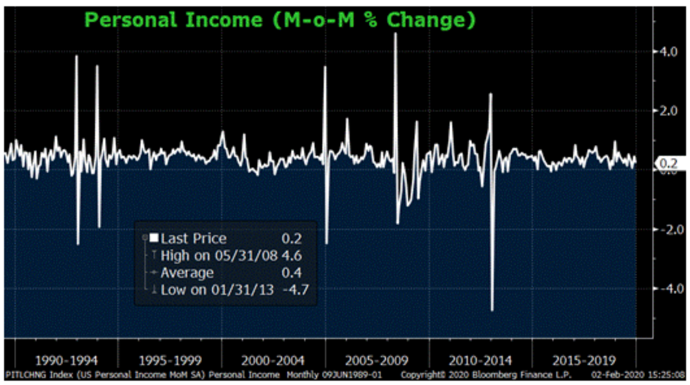
Solid Econ Data



The headline number for durable goods orders in December came in much better than expected, rising 2.4%, compared to estimates of a 0.3% contraction, but the figure was juiced by a massive 90% increase in military orders. And, first-time filings for unemployment benefits continue to bounce along near five-decade lows, with the latest week's tally inching up to 216,000.

…to OK.





With the numbers reflecting a decent holiday shopping period, the Commerce Department reported that consumer spending gained 0.3% in December, in line with expectations, but reflective of a ho-hum economic outlook heading into 2020. Commerce also said that personal incomes rose a weaker-than-expected 0.2% during the month, down from a 0.4% increase in November.

And, we note that Mr. Powell has made it very clear that if conditions change for the worse, the Federal Reserve stands ready with additional accommodation: "We believe the current stance of monetary policy is appropriate to support sustained economic growth, a strong labor market, and inflation returning to our symmetric 2 percent objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy will likely remain appropriate. We will be monitoring the effects of the policy actions we took last year, 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."

Certainly, investors are of the mind that the Fed is not about to raise interest rates any time soon,…

Low Interest Rates Likely to Stay

99) Export | Upgrade Available | World Interest Rate Probability

United States | Instrument: Futures: Fed Funds - Effective | Fed Effective Rate 1.60

1) Overview | 2) Future Implied Probability

Current Implied Probabilities | 3) Add/Remove Rates

Dates: Meeting / Calculation | Calculated 01/31/2020 | Based on rate 1.50-1.75

Meeting	Hike Prob	Cut Prob	0.5-0.75	0.75-1	1-1.25	1.25-1.5	1.5-1.75	Fwd Rate
03/18/2020	0.0%	28.8%	0.0%	0.0%	0.0%	28.8%	71.2%	1.52
04/29/2020	0.0%	49.6%	0.0%	0.0%	8.4%	41.2%	50.4%	1.44
06/10/2020	0.0%	65.6%	0.0%	2.7%	18.8%	44.1%	34.4%	1.36
07/29/2020	0.0%	75.0%	0.7%	7.1%	25.7%	41.5%	25.0%	1.29
09/16/2020	0.0%	83.9%	3.0%	13.7%	31.3%	35.6%	16.1%	1.21
11/05/2020	0.0%	86.6%	4.8%	16.7%	32.0%	32.3%	13.4%	1.16
12/16/2020	0.0%	90.8%	8.5%	21.5%	32.1%	26.4%	9.2%	1.08
01/27/2021	0.0%	91.8%	9.9%	22.7%	31.5%	24.5%	8.2%	1.05

With the amount of negative-yielding debt soaring above $13 trillion in January, the futures market is presently signaling a 0% chance of a boost in the current 1.5% to 1.75% target for the Federal Funds rate over the next year, while the odds are 91.8% for a reduction and 64.1% for two or more cuts.

…which only adds to the appeal of equities.

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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 (4.67%), and that the S&P dividend yield (1.83%) is above the 10-Year yield (1.53%).

True, we understand that there are questions about the Coronavirus impact on corporate profits, but the latest developments should draw long-term-oriented investors toward equities,…

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 30-year U.S. Treasury today, with its 2.0% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2%	Count <=2%	Percent >2%
1 Month	689	421	62.1%
3 Months	730	378	65.9%
6 Months	764	341	69.1%
1 Year	780	319	71.0%
2 Year	876	211	80.6%
3 Year	924	151	86.0%
5 Year	916	135	87.2%
7 Year	973	54	94.7%
10 Year	953	38	96.2%
15 Year	923	8	99.1%
20 Year	871	0	100.0%

DIVIDEND PAYERS

	Count >2%	Count <=2%	Percent >2%
1 Month	685	425	61.7%
3 Months	733	375	66.2%
6 Months	774	331	70.0%
1 Year	800	299	72.8%
2 Year	896	191	82.4%
3 Year	887	188	82.5%
5 Year	923	128	87.8%
7 Year	954	73	92.9%
10 Year	939	52	94.8%
15 Year	909	22	97.6%
20 Year	871	0	100.0%

From 07.31.27 through 12.31.19. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…even as we realize that Wall Street is about the only place where they hold a sale and few people show up. We respect that volatility is likely to remain elevated, but we believe that the Coronavirus scare will eventually pass and that folks will wish they had taken advantage of the short-term setback, as generally has been the case throughout a market history that has been filled with worrisome events.

THE PRUDENT SPECULATOR
Brexit & U.S. Equities

While many thought the U.K. voting to leave the European Union would hit stocks in the U.S., the S&P 500 has enjoyed a total return of more than 64% since the "Leave" supporters celebrated on June 23, 2016.

Stock Updates

It helps to stay grounded during times of market turmoil by focusing on the prospects of the businesses in which we are invested. Happily, Corporate America has been busy reporting fourth quarter results and the numbers have been pretty good, even as management guidance has been tempered and market reaction has not always been great. Still, we like that, per data from Bloomberg, 74.4% of the 225 members of the S&P 500 to have announced results thus far have topped earnings expectations, while 64.1% have exceeded revenue projections.

Jason Clark, Chris Quigley and Zack Tart take a look at 17 of our companies that were out with news last week of sufficient importance to trigger a review of their review of their respective Target Prices.

Readers will note a new contributor to our content! Zack Tart joined the AFAM/TPS team (a division of Kovitz) in late-2019, where he performs fundamental research for the firm's equity strategies and works with clients to provide customized account management. Prior to joining Kovitz, Zack was an analyst with a regional trust company and an independent wealth management practice. He is a veteran of the United States Navy with a Bachelor of Science in Ag Business Management from North Carolina State University and is currently a level II candidate in the CFA® Program.

Note that all stocks are rated as a "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/.

Technology hardware designer and manufacturer **Apple** (AAPL – $309.51) earned $4.99 per share in fiscal Q1 2020 (vs. $4.56 est.). AAPL had sales of $91.8 billion, versus the $88.4 billion estimate. Despite an enthusiastic initial response to the terrific results, shares ended the week nearly $9 lower, leaving Apple's market capitalization at a massive $1.35 trillion. It represents approximately 4.8% of the S&P 500 and 4.3% of the Russell 3000 indexes.

CEO Tim Cook said, "Our record performance was fueled by iPhone, where December quarter revenue was up 8% year-over-year and by our fifth consecutive quarter of double-digit growth outside of iPhone including a new all-time record for Services and another blowout quarter for Wearables. Our active installed base of devices has now surpassed 1.5 billion, up over 100 million in the last 12 months alone, reaching a new all-time high for each of our main product categories and geographic segments. Not only is our large and growing installed base a powerful testament to the satisfaction, engagement and loyalty of our customers but it's also fueling our growth across the board, particularly in Services."

Mr. Cook concluded, "As we close the books on a record-breaking December quarter, we are already well underway on some new and exciting developments for the future. Apple's strength will always be its balanced creativity and innovation, and this year will be no different."

The analyst consensus 12-month target price, using data in Bloomberg, stands at $335 compared with $270 around the end of December. Despite the huge market capitalization, we think that the valuation is still not that unreasonable, with metrics like a forward price to earnings ratio of 21.7, a free cash flow yield near 5% and a dividend yield of 1.0%, which we might expect to increase in the near future. Not ready just yet to part with any more of our AAPL shares, we have ratcheted our Target Price up to $340.

Computing giant **Microsoft** (MSFT – $170.23) earned $1.51 per share in fiscal Q2 2020 (vs. $1.32 est.). MSFT had sales of $36.9 billion, versus the $35.7 billion estimate. Shares climbed more than $5 during an otherwise ugly trading week, pushing the market capitalization temporarily above $1.3 trillion.

Microsoft CEO Satya Nadella commented, "It was another strong quarter with double-digit top and bottom line growth driven by the strength of our commercial cloud. Stepping back from the quarter and reflecting more broadly on the next decade, the defining secular trend will be the increasing rate of digitization of people, places and things. This malleable power of software will drive productivity growth across all industries, leading to more inclusive economic growth, far beyond the domains of consumer tech today. Tech spend as a percentage of GDP is projected to double over the next decade. At Microsoft, we are focused on building the most differentiated tech stack to enable every organization in every industry to build their own digital capability and tech intensity, with a business model that is trusted and aligned with their success in this new era."

CFO Amy Hood added, “At the company level, we continue to expect double-digit revenue and operating income growth, driven by the continued strength of our commercial business. For operating expense, as a result of lower spend in H1, we now expect full year growth between 10% and 11%. And finally, given our strong H1 results, particularly in high-margin businesses, as well as the expected sales mix for the remainder of the year, we now expect operating margins to be up roughly 2 points year-over-year, even as we invest with significant ambition in strategic and high-growth areas in the second half of this year.”

MSFT returned $8.5 billion to shareholders via dividends and share repurchases in fiscal Q2. Including dividends, shares have gained more than 70% since the end of 2018. While performance has been terrific and the company’s Azure cloud platform continues to grow, we continue to believe there are still a host of reasons that Microsoft will continue to fire on all cylinders. That said, though the stock sports a 3.1% free cash flow yield and a 1.2% dividend yield, to go along with significant growth potential, the shares have become a little pricey with a forward P/E ratio of 29. Of course, analysts expect the company’s EPS growth rate to be at least 11% for each of the next three fiscal years, with earnings growing from $3.88 in 2018 to an estimated $7.18 in fiscal 2022, while the stock still still scores well in our quantitative framework. We are keeping an eye on MSFT for a possible trim, especially as the position has grown relatively large in our portfolios, but for the time being our Target Price has been boosted again, this time to $179.

Semiconductor equipment firm **Lam Research** (LRCX – $298.81) posted earnings per share of $4.01, versus the $3.85 estimate, in fiscal Q2 2020. LRCX had sales of $2.6 billion (vs. $2.5 billion est.). Shares jumped more than 3% on Thursday, following the Wednesday post-market release, before giving everything back in Friday’s deluge to end the two days almost exactly where they began. All of this came despite the fact that the quarter was very good and forward guidance was better than analysts were anticipating, with $2.6 billion to $3.0 billion of revenue and $4.55 (+/- $0.40) of adjusted EPS expected in fiscal Q3.

CEO Tim Archer said, “In the December quarter, Lam delivered revenues and diluted earnings per share above the midpoint of guidance, marking another quarter of solid execution and closing out a year of strong performance in calendar 2019. Consistent with our comments throughout this year, we entered 2020 with increasing momentum and an improved spending mix environment, which we believe will lead to outperformance by Lam. I have now completed my first year as CEO of Lam Research, and I am incredibly proud of what our people have achieved. Underpinning our strong financial results this past year has been a company-wide focus on execution and an emphasis on our culture where all employees can perform their best. I want to thank Lam’s employees across our global organization for their efforts and, of course, our partners and customers for their valued support.”

Mr. Archer added, “Lam delivered strong financial performance in calendar 2019. And as our March quarter guidance suggests, we’re in a great position to drive higher in 2020 with the improvement in Memory spending. Lam’s product pipeline is very strong, with more innovation on the way, and we look forward to sharing more with you at our upcoming Investor Day on March 3.” Because the company does a significant amount of business in mainland China (about

1/4 of annual revenue), Lam said it is taking precautionary measures related to the coronavirus outbreak and was donating to local Chinese relief efforts but did not report a business impact.

A strong IT environment has caused demand for Lam's gear to swell, with sales rising from $4.0 billion in 2013 to $9.6 billion in 2017, while analysts project nearly $13 billion in calendar 2021. We like the strong balance sheet, while consensus analyst adjusted EPS forecasts for fiscal 2020, 2021 and 2022 now stand at $16.29, $19.97 and $22.70, respectively. Management repurchased $1 billion worth of shares in the latest quarter, leaving $2 billion on the $5 billion share repurchase program that concludes in June. With the stock up more than 120% since the end of 2018, LRCX now trades for 16 times projected earnings, though the dividend yield is still 1.5%. Our Target Price has been hiked to $324, but we are keeping a close eye on this suddenly very popular name.

Semiconductor equipment manufacturer **Kulicke & Soffa Industries** (KLIC – $26.40) earned $0.24 per share in fiscal Q1 2020 (vs. $0.14 est.). KLIC had total revenue of $144.0 million, versus the $140.0 million estimate. Despite the significant bottom-line beat, the stock skidded nearly 8.5% over the two days since the numbers were posted, evidently because of disappointment that fiscal Q2 revenue guidance was for a range of $140 million to $170 million, with the $155 million midpoint below the consensus estimate of $157 million

KLIC CEO Fusen Chen commented, "Throughout the December quarter, we experienced expected seasonal softness in the general semiconductor market which has been more than offset by our resurgence in the demand for our advanced packaging, memory, and the automotive-focused solutions. In addition, during this year at the recent CES event in Las Vegas we were pleased to see the strong alignment and relevance our broad equine offering have, with new and future consumer devices…Overall, healthy utilization rate and aftermarket sales as well as meaningful improvement within key automotive and memory end markets increase our confidence in an ongoing market recovery, which we expect to improve further throughout fiscal 2020. Ongoing market traction within our dedicated advanced packaging systems, including our mini and microLED solution add confidence to our longer-term revenue target."

KLIC has $91.8 million left on its share buyback program and spent $5.4 million repurchasing 220,000 shares in the quarter. Over the past five years, KLIC has repurchased 17.4 million shares for $308.2 million. We like that KLIC has its "hands" in many new areas of technology: 5G, automotive, Internet of Things and solid-state memory. We also are pleased that KLIC is working to maintain and expand margins, while investing heavily in R&D. Management suggests that some of the new products, such as microLEDs, will have margins above the overall corporate margin. KLIC has a diversified customer base and opportunity to switch to advanced packaging as nodes continue to shrink. Analysts expect EPS to grow from $0.28 in 2019 to more than $2.00 in fiscal 2021. In addition, KLIC yields 1.9%. Our Target Price is presently $30.

Electronic components maker **Corning** (GLW – $26.69) posted earnings per share of $0.46, versus the $0.44 estimate, in fiscal Q4 2019. GLW had sales of $2.9 billion (vs. $2.7 billion est.). Despite beating estimates, reporting growth in Life Sciences and watching the stock initially rally 3% in response to the results, shares tumbled over 9% on the week, evidently because the top line was down year-over-year amid lower TV unit sales in the Glass business and a weakness in the Optical business that resulted in a single-digit decline in sales.

CEO Wendell Weeks remained positive, “2019 was challenging from a financial perspective, but we remain committed to our new Strategy & Growth Framework introduced last year. Our new framework is the evolution of our Strategy and Capital Allocation Framework, which we successfully completed last year. Building on the strong foundation of our original framework, we made excellent progress on many strategic initiatives during the year. We made commercial and regulatory progress on Valor. We opened a dedicated factory for our burgeoning auto interiors glass business and grew our order book significantly. Display pricing remained moderate. And we advanced several compelling innovations in Gorilla Glass and Optical Communications.”

Mr. Weeks continued, “We met or exceeded all of the goals of the 2016-2019 Strategy and Capital Allocation Framework, including returning more than $12.5 billion to shareholders over 4 years through share repurchases and a 67% dividend per share increase, all while creating a better, stronger, more resilient company. Under our new Strategy & Growth Framework, we expect to continue capturing significant organic growth and creating additional value for shareholders. From 2020 to 2023, we expect to deliver 6% to 8% compound annual sales growth and 12% to 15% compound annual EPS growth, expand operating margin and return on invested capital, invest between $10 million and $12 billion with a focus on organic growth. And return $8 billion to $10 billion to shareholders through a combination of dividend increases and opportunistic share repurchases.”

GLW expects to add $3 billion to $4 billion in sales by 2023 in organic growth with new products and improved profitability. The last few years for GLW have been choppy, both for the stock and for earnings, but we think that the company’s glass products are superior to other products out there, while the company’s diversification offers an additional level of stability. We continue to think there are significant growth opportunities in each of GLW’s five business segments, and it’ll likely take time to get everything up to speed (fabs are not built quickly). We continue to think GLW offers best-in-class products with a strong management team that has achieved stated long-term goals consistently. GLW yields 3.0% and trades around 17 times NTM adjusted EPS expectations. We saw no reason to reduce our Target Price and instead have bumped it up to $43.

Shares of **Benchmark Electronics** (BHE – $30.78) had a miserable weak, shedding more than 16% after the electronics manufacturing services company released updated Q4-2019 guidance and initiated Q1 guidance, both of which bore the brunt of a ransomware incident that encrypted information on its systems and disrupted customer and employee access to its applications and services. Per the press release, “The company restored connectivity and resumed operations quickly following the ransomware incident. However, fourth quarter revenue was adversely affected as the company was unable to fulfill all customer demand during the quarter.”

Unfortunately, Q4 will now be substantially worse than previous estimates, and included an adjusted EPS range of $0.24 to $0.28 (previously was $0.34 to $0.42) and a revenue range of $505 million to $510 million (was $520 million to $570 million). CEO Jeff Benck commented, “It’s unfortunate that this is the world we now live in where no company is immune from these types of damaging attacks. I am proud of how our teams responded and worked tirelessly in the fourth quarter to meet customer critical demands. Our customers were incredible during this outage, which is a true testament to the deep partnerships we have. I want to express my deepest gratitude for the unwavering support of our team that enabled us to return to full operations quickly in the fourth quarter. As we enter 2020, we are as confident as ever in the fundamental strength of our business and look forward to a good start to the year.”

BHE said that it expects to generate revenue of $530 million to $570 million in Q1, with adjusted EPS for the three-month period projected to come in between $0.32 to $0.38. While we did ratchet down our Target Price to $36, we continue to like that Benchmark is expanding its product offerings and appreciate that it has been pushing for growth outside of its original markets. Along with other EMS companies, we expect improving free cash flow generation from slimming inventories and the U.S.-China trade conflict easing, though the recent Coronavirus health emergency may adversely impact operations over the near term. BHE has a terrific balance sheet with more than $5 per share of net cash and its shares yield 1.9%.

Alaska Air Group (ALK – $64.59), a Seattle-based airline that operates primarily on the West Coast, reported earnings per share of $1.46, versus the $1.41 estimate, in fiscal Q4 2019. ALK had sales of $2.2 billion (vs. $2.2 billion est.). Shares initially rose 2.1% following the announcement but fell in Friday’s trading as fears of the Coronavirus spread.

CEO Brad Tilden commented, “We feel that 2019 marked a turning point for us as we got through the bulk of our Virgin America integration and began to see the returns on that investment. And more importantly, as we focused our energy on running a fantastic airline and on executing initiatives, which we designed to strengthen our long-term competitive advantage. Our operating cash flow was exceptional, as it grew 37% to $1.8 billion. Our free cash flow of $1.1 billion and our net income to free cash flow conversion of about 140% were also very strong. We’ve now paid down 75% of the $2 billion we borrowed to buy Virgin America. Our debt-to-cap ratio is now down to 41%. These results deliver terrific value for our owners.”

CCO Andrew Harrison offered Q1 guidance, “Capacity growth will be approximately 4% and unit revenue is expected to grow between 0.5 point and 3.5 percentage. While Q1 is the weakest seasonal period in the industry, we’ve seen indications of strength in the early weeks of the quarter relative to last year. To date, pricing has been stable. And structural changes to our network in January and February to better match our network to demand patterns is resulting in some nice load factor increases, and we expect to outperform industry unit revenues this quarter. 2019 was a strong year accompanied by great momentum, delivering margin improvement through higher RASM and a better guest experience remains the commercial team’s #1 priority as we enter 2020. We’ve demonstrated our ability to identify and execute against high-quality, self-help measures in 2019 and are confident that the additional opportunities we have identified will be similarly successful in 2020.”

We think that ALK continues to put itself in a strong position, from both competitive and passenger experience standpoints. Indeed, the company has a strong balance sheet (especially for an airline) and has made partnership moves that best support its schedule and services. While we expected the Virgin America acquisition to run smoothly given the competent management team, we think that ALK has fared particularly well with little in the way of noticeable customer churn. We do not expect much of an impact from any domestic travel-related Coronavirus concerns, and ALK trades for around 9 times NTM earnings and yields a just-increased 2.3%. Our Target Price has been elevated to $97.

Though it was a miserable market week overall, shares of **Axis Capital** (AXS – $64.25) rose more 3% over the five days after the reinsurer reported Q4 and full-year financial results. While 2019 was a tough year, Axis turned in a better-than-expected Q4 profits. Management said adjusted EPS was $0.08, versus the consensus estimate of $0.04. That bottom line number isn't grand and 2019 saw an inflated reinsurance loss ratio.

CEO Albert Benchimol explained, "We did not deliver the financial results we expected in 2019, as our performance suffered from a record typhoon season in Japan, poor crop conditions in the U.S., as well as high loss activity in property and aviation lines. Notwithstanding these headwinds, our actions still enabled us to reduce our current year ex-cat loss ratio by over a point this year, bringing the reduction in our ex-cat loss ratio to more than three points over two years, with progress in both our Insurance and Reinsurance businesses."

He continued, "With the additional portfolio remediation that we executed in 2019, we entered the new year with a stronger book that has less inherent volatility. We have brought down PMLs, decreased limits, and exited or reduced our participation in underperforming businesses while pushing for more rate across the board. At the same time, we're focused on driving growth in our most attractive lines. We're also working with our partners in distribution to use our expanding digital capabilities to create new business growth in desirable smaller accounts."

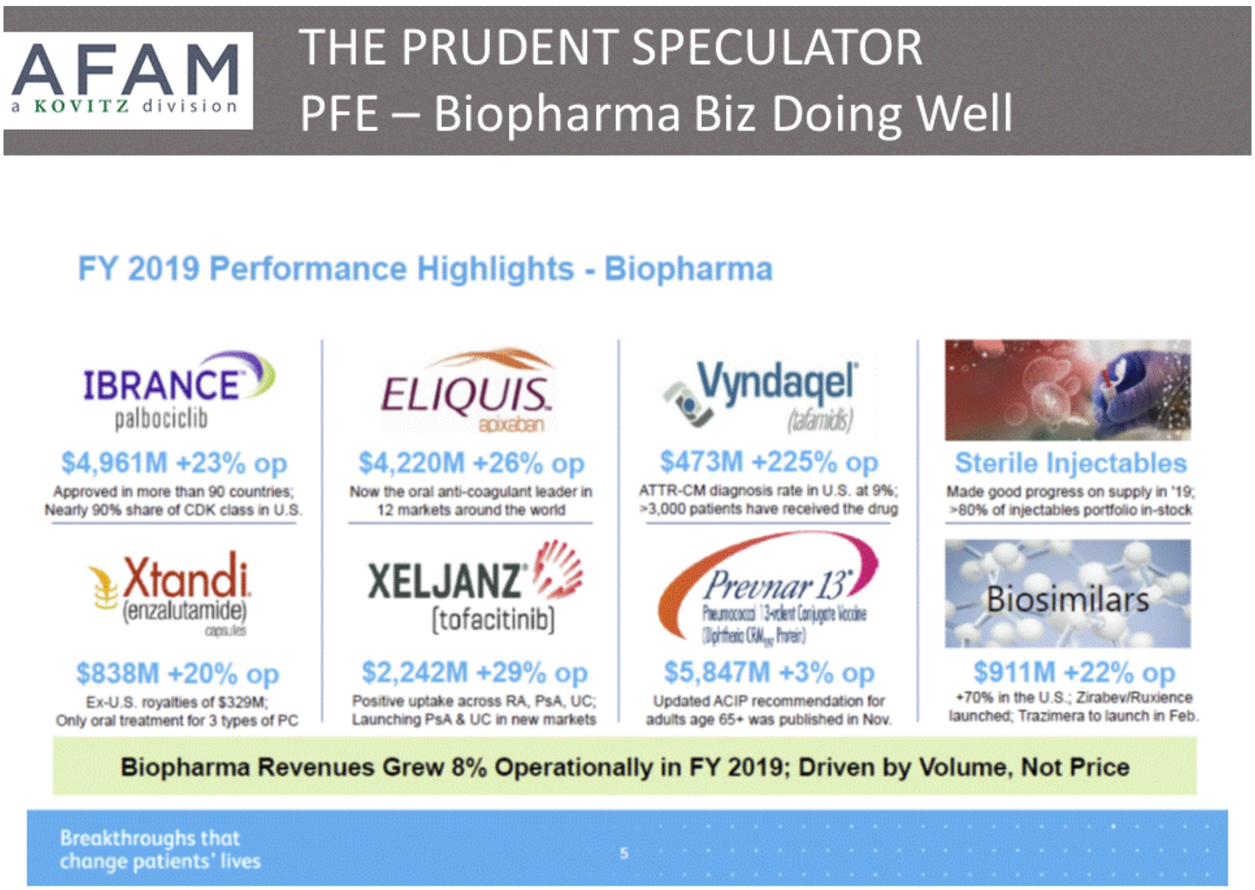
The outlook was much rosier: "With pricing momentum accelerating, we believe that favorable market conditions will sustain through 2020, driving more lines of business to pricing adequacy and providing us with more opportunities to leverage our market position to generate profitable growth."

We continue to like that Axis' leadership team is experienced and focused on controlling costs and bringing specialist underwriting to new target markets, as well as creating more business balance and decreasing volatility. That said, AXS is under our microscope as it draws closer to our Target Price and the reinsurance business is not an easy one, especially given the seemingly increased frequency of natural catastrophes, but we think Axis is a solid way to play an improving pricing environment in the industry. AXS shares currently yield 2.6% and trade near book value per share, not to mention 11.8 times NTM expected adjusted EPS. Our Target Price has been nudged to $70.

Shares of **Pfizer** (PFE – $37.24) fell more than 6% last week after the drug giant posted Q4 financial results that seemingly disappointed investors. Revenue for the quarter was $12.69 billion, which was about 1% better than expectations, however, bottom-line results of $0.55 trailed the consensus forecast of $0.57. Operational results of the company's Upjohn segment were hurt by the loss of exclusivity of its medication Lyrica. Additionally, increased marketing expenditures were a drag on results.

Chairman and CEO Dr. Albert Bourla stated, “2019 was a busy year, highlighted by solid financial performance, shareholder-friendly capital allocation, the strengthening of our pipeline as well as the formation of the Consumer Healthcare JV with GSK. We also announced a definitive agreement to combine Upjohn and Mylan to create a new global pharmaceutical company, Viatris, marking an important milestone in Pfizer’s evolution toward becoming a more focused, global leader in innovative medicines.”

He continued, “2020 is expected to be an exciting year for Pfizer with the close of the Upjohn-Mylan transaction anticipated by mid-year, leaving New Pfizer positioned to deliver revenue and Adjusted diluted EPS growth that is expected to be among the industry leaders. New Pfizer will be a smaller, science-based company with a singular focus on innovation while also continuing to allocate significant capital directly to shareholders, primarily through dividends.”



CFO Frank D’Amelio added, “I am pleased with our 2019 financial results, which met or exceeded all components of our financial guidance. Our Biopharma business generated 8% operational revenue growth, driven by strong growth from Ibrance, Eliquis, Xeljanz and Vyndaqel/Vyndamax. As expected, the Upjohn business declined 16% operationally, primarily reflecting the U.S. loss of exclusivity of Lyrica in July 2019. Excluding Lyrica in the U.S. and the impact of other recent product losses of exclusivity, Upjohn revenues declined 3% operationally in 2019. We also returned $16.9 billion directly to shareholders through share repurchases and dividends, demonstrating our continued commitment to returning capital to our shareholders."

We think that it is again worth noting that with the decision to divest its older drug platform (Upjohn) to Mylan, the remaining part of Pfizer should be positioned and will focus on stronger growth. Its 2020 guidance for the remaining innovative biopharma group is 8%. Like others we expect solid growth from New Pfizer's cardiovascular, rare heart disease and cancer drugs and believe the pipeline has potential. One would expect the uptick in marketing spend during Q4 will be additive to these medications moving forward.

We believe that the selloff was overdone and that the market still under-appreciates the company's emerging pipeline of products and management's increasing confidence in its organic growth potential. There is no doubt that there were a lot of moving parts in 2019 as PFE entered a joint venture with GlaxoSmithKline, began the process of combining its Upjohn unit with Mylan to create an all new pharma company and announced that the "new" PFE would continue to evolve and focus on innovation of new medications and higher growth rates. We have adjusted our Target Price down on PFE to $45.

Integrated oil giant **Royal Dutch Shell** (RDS/A – $52.15) was no exception to the broad selling across nearly all things energy over the past week. Shares began their slide Thursday morning following the Q4 earnings release and ended the week down over 8%. Earnings of $0.74 in the fourth quarter undercut analyst estimates by nearly 8% as the company experienced a perfect storm where macroeconomic headwinds led to weak pricing across all the firm's segments. Given difficult operating conditions, management has followed through on its expectations mentioned last quarter to throttle back its pace of repurchases, buying back only $1 billion of stock in Q4.

Shell's transition to a low-carbon future prompted a spree of purchases related to customer-facing electricity distribution and renewable energy over the past several months. But for the time being, management states that the company is laser focused on controlling its costs and driving project efficiency to protect its solid balance sheet.

CEO Ben Van Beurden commented, "I would like to spend a little time now on one of the crucial things which has put us on this path to success, which is capital efficiency. Our projects and technology organization is responsible for the safe and efficient delivery of nearly 2/3 of Shell's total capital spend. And by systematically applying capital efficiency improvements, we have been able to structurally and to sustainably reduce costs across our project portfolio. Competitive scoping, systems engineering, efficient execution, recurring value in the supply chain, all these things have been crucial to our achievements. Independent Projects Analysis, or IPA, shows that more than 70% of the major projects we sanctioned in 2018 and '19 have a unit development cost that is either best-in-class or top quartile. And we have reduced the portfolio unit development cost for upstream and Integrated Gas projects by more than 50% since the end of 2014. Now of course, this makes the company more resilient at lower oil prices. And our average forward-looking breakeven price for projects that we took a final investment decision on in 2019 was under $30 per barrel. And this focus on efficiency will continue. It will continue to be a feature of what we do in each of our strategic themes, and we will continue to build resilience and returns on the back of it."

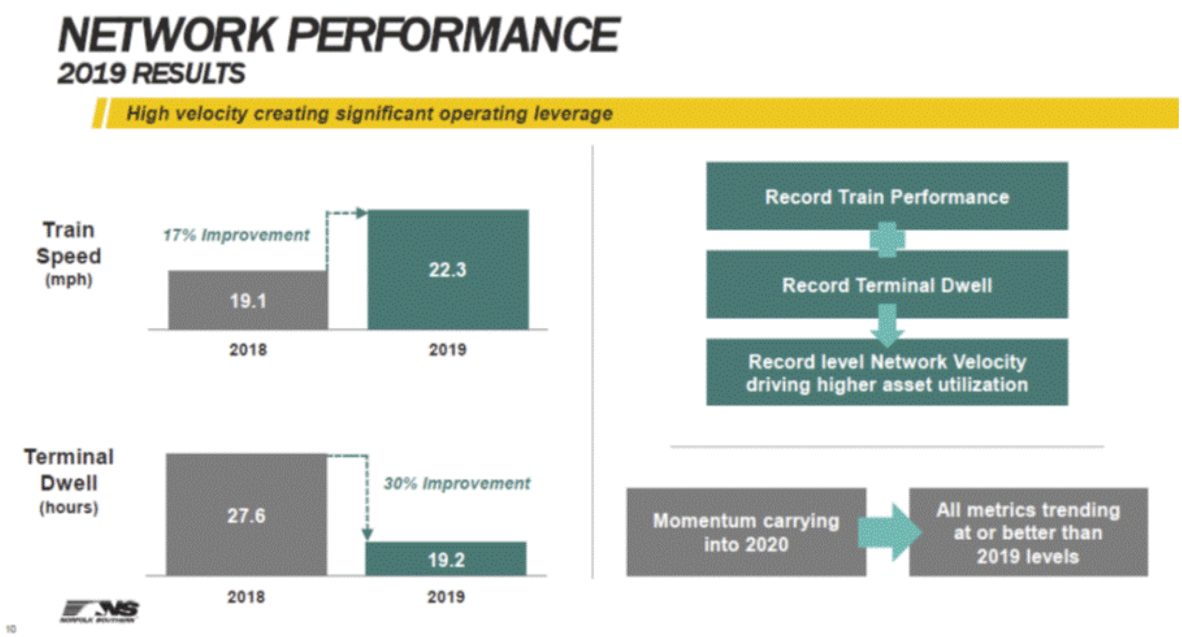
The Energy sector continues to test our patience, but we think there is plenty of value in stocks like Royal Dutch that still produce lots of cash flow and maintain healthy balance sheets. Viewing the potential for additional carbon taxes globally as potential costs, efforts to reduce carbon footprint could position the Anglo-Dutch giant as the low-cost producer. Meantime, as offshore oil markets appear to pick up speed, we appreciate the focus on driving efficiencies that lower the current cost of production. Shares currently trade at 11 times earnings estimates and offer a juicy net dividend yield of over 6%. That said, our Target Price has been cut to $84.

East coast railroad operator **Norfolk Southern** (NSC – $208.21) posted earnings of $2.55 per share in fiscal Q4 2020 (vs. $2.29 est.). Despite a 5% reduction in carload volumes and a 1% reduction in full-year revenue, a 3% reduction in expenses lifted operating earnings to a record-level of nearly $4.0 billion for the year. The stock soared to an all-time high on the terrific results, before getting caught in the late-week downdraft that left the shares more or less unchanged on the full week.

CEO James A. Squires commented, "Norfolk Southern's strong financial performance in a year of macroeconomic headwinds is underpinned by the hard work of our team to expeditiously implement productivity initiatives throughout the year. With efficiency-related cost savings gaining steam in the third quarter and increasing in the fourth quarter, we achieved a record full-year operating ratio while also producing all-time best delivery performance for customers. This was the result of extensive systemwide planning integrated with customer communications during the first half of the year that created a foundation for the flawless execution of the initial two phases of our PSR-based operating plan, TOP21, in the second half. The momentum we're carrying into 2020 will support continued value creation as we remain dedicated to the operational transformation of our business while ensuring we have a platform for growth as we look beyond the current freight cycle."

THE PRUDENT SPECULATOR

NSC – Still Room for More Efficiencies



Rail remains a preferred mode of freight transport, claiming quadruple the fuel efficiency of trucking per ton-mile, and while the rail sector carries 7% of global freight, it represents only 2% of total transport energy demand. We expect operating metrics across Class I railroads to converge in the coming years, and NSC stands to benefit from efficiency gains more than others that have more fully reaped the benefits of measures like Precision Scheduling Railroading (PSR). Despite strong gains over the past year, we think that there is still upside, especially considering execution of management's TOP21 program is over a year ahead of schedule. Of course, the stock trades for 19 times estimated earnings, which is not exactly cheap for a railroad, even as the dividend yield remains a generous 1.8%. For the moment, our Target Price has steamed ahead to $221, but we might soon be inclined to take a little of our NSC money off of the table.

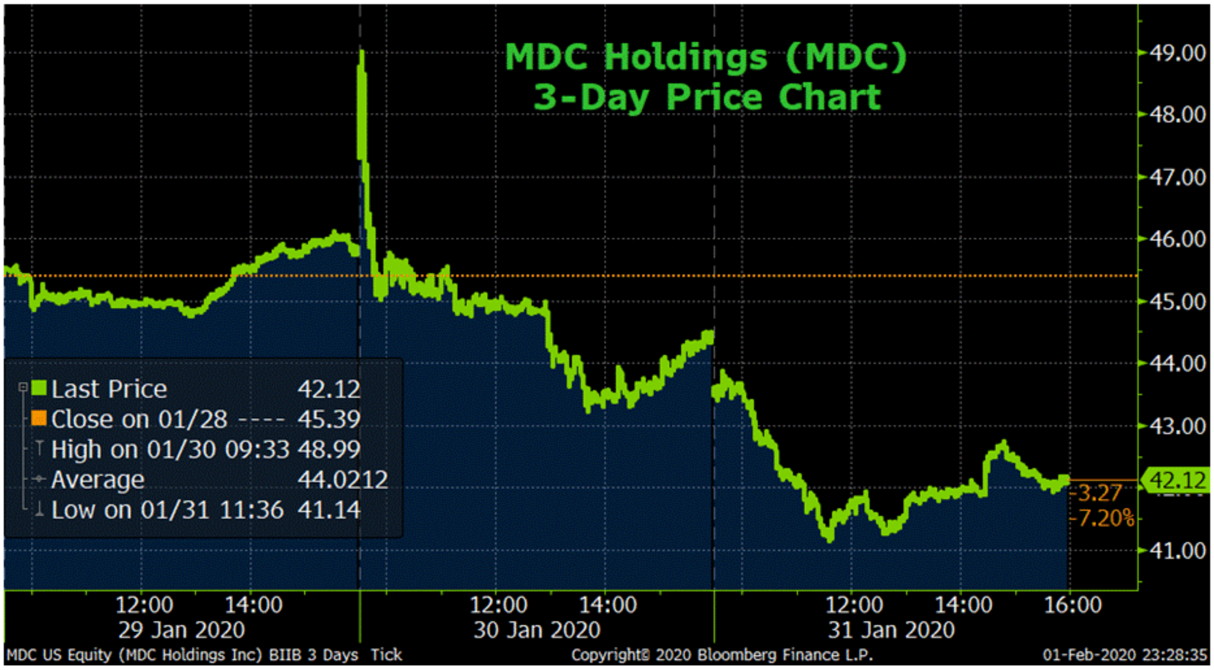
Global agricultural concern **Archer Daniels Midland** (ADM – $44.76) produced earnings in Q4 that came in well above analyst estimates ($1.42 vs.70). The company benefited from strong refined products and nutrition results and received major biodiesel credits from 2018 and 2019 that were paid in the quarter. While the Phase One trade agreement with China is certainly a positive for ADM, management guided for a soft Q1, but for results to improve throughout the year.

CFO Ray Young explained, "Looking ahead, we expect overall Ag Services and Oilseeds results to be lower in Q1 2020 than Q1 2019. Ag Services results should be in line with the year-over-year period. Crushing will be strong but still lower due to the very high crush margins, driven in part by positive timing impacts in the year ago period. RP&O should be slightly higher on continued good oil demand. We expect the impacts of the biodiesel tax credit to continue to support the biodiesel industry, although the normalized impact for ADM in 2020 will be lower. For preliminary modeling purposes, we assume about 1/6 of the combined 2018 to 2019 impact, but the actual net benefit will be a function of market conditions as we move through the year. Additionally, we expect to see the ramp-up of agricultural exports to China in the second half of the year."

CEO Juan Luciano added, "So as I look ahead to 2020 and beyond, I see significant opportunities. We feel that external conditions should improve in the back half of the year particularly as impacts from the Phase 1 agreement between the U.S. and China take hold. Nevertheless, we are planning conservatively and focused on driving our own results for the year. We are focused on opportunities for business improvement, including our ongoing strategic review of our dry mills and addressing lysine. We are advancing readiness, and there is still more to harvest from our recent growth initiatives. We'll be acting on all these opportunities in 2020 while remaining focused on disciplined capital allocation and M&A as we continue to drive towards our 10% long-term ROIC objective."

We continue to like the longer-term global secular growth trends in agriculture, and we think that ADM's scale gives it advantages over regional competitors. We also note that the company continues to work to strengthen its balance sheet, reshape its portfolio and return cash to shareholders. ADM currently yields 3.2% and trades for 13.3 times NTM EPS forecasts. Our Target Price has been bumped up to $60.

MDC Holdings (MDC – $42.14) posted sensational Q4 results on Thursday morning, with the homebuilder initially seeing its shares quickly soar more than 6% to $48.99. To our surprise, the stock plummeted over the balance of the week, skidding almost $7 from the high, as at least one analyst "grew concerned" that the company's "hyper-growth" might come to an end.



While we are often amused by analyst rationale, we were quite constructive on not only the recent results, but also the company's near-term outlook. Adjusted EPS for Q4 came in at $1.42, almost 17% above the smart folks on Wall Street's consensus forecast. Revenue was also better than expectations, coming in at $1.1 billion. The company also announced its backlog dollar value at year-end was up 22% year-over-year to $1.75 billion and a 10% increase in the quarterly dividend.

CEO Larry A. Mizel commented, "MDC finished the year on a strong note, generating fully diluted earnings per share of $1.42 in the fourth quarter, a 61% increase as compared to last year. We also achieved year-over-year improvements in our homebuilding gross margin and SG&A leverage, resulting in homebuilding operating margin expansion of 150 basis points. The sales environment continues to be favorable, as evidenced by the 49% growth in unit orders for the quarter. These demand trends have carried into the new year, giving our business strong momentum as we head into the spring selling season."

Mr. Mizel continued, "For the full year 2019, we posted year-over-year improvements to both revenue and profitability, which resulted in fully diluted earnings per share of $3.72. This marks our fifth consecutive year of net income growth, and we are well positioned to continue that trend in 2020 thanks to a 29% increase in homes in backlog to start the year. We also ended the year in a strong financial position with a year-over-year decrease in our debt to capital ratio and a maturity schedule that was further enhanced earlier this month by the issuance of $300 million of 3.850% senior notes due 2030."

Mr. Mizel concluded, "As we enter 2020, we will continue to focus on the more affordable segments of the market due to the ongoing lack of supply and broad-based demand we have witnessed. We believe this favorable supply-demand environment will remain in place for some time given the demographic shifts occurring in this country. These factors, coupled with our solid market positioning and growing backlog, provided us with the confidence to increase our cash dividend by 10% just a few days ago."

Interest rates have once again moved down, which should help MDC as the cost of borrowing for both it and its potential customers remains quite attractive. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet, with ample liquidity that the company can use to smartly acquire land in attractive markets. Additionally, we continue to like MDC's focus on first time buyers (many Millennials) with its Seasons collection of homes. Shares trade at 10 times NTM adjusted EPS expectations. Our Target Price for MDC has been boosted to $54.

Paper and packaging concern **Int'l Paper** (IP – $40.72) earned $1.09 per share (vs. $1.02 est.) on $7.7 billion in sales in its fourth quarter. Despite the bottom-line beat, the Street appeared to be hung up on IP's 4% decline in year-over-year earnings and slightly lower-than-expected revenue, as the stock price closed the week 6.5% lower. Management blamed weaker pricing, as well as lower export containerboard and pulp volumes. Nonetheless, the company generated over $2 billion of free cash flow and returned $1.3 billion to shareholders through dividends and share repurchases throughout 2019.

CEO Mark Sutton commented on the year, "International Paper delivered solid earnings and outstanding free cash flow in 2019. Our performance demonstrates the strength of our cash generation and the flexibility of the company to navigate well even in challenging environments. While the U.S. economy remains healthy, we managed through significant inventory headwinds and broader trade tensions that impacted our exports. Against this backdrop, we focused on optimizing our full value chain. We grew with customers who are market leaders in their respective segments. We ran our manufacturing system well, and we leveraged the flexibility of our mill and converting system, all of which allowed us to continue to grow value for our shareowners with an ROIC of nearly 11%, which is well above our cost of capital."

CFO Tim Nicholls gave his expectations for the current year, "We expect very challenging earnings in the first half of 2020 due to the flow-through of prices from 2019 and the impact of higher maintenance outage expenses. We do see better fundamentals as we enter 2020. Customer fluff inventories have normalized and underlying demand is improving. Looking beyond the improving supply-demand conditions, our strategy is to grow profitably in fluff pulp to reduce our market pulp mix. We continue to feel good about the 2% to 3% structural demand growth with fluff pulp, which is our focus. We had a successful contract season and are on pace to bring fluff and specialty mix to 75% of total volume in 2020. All of this positions us for an improvement in the second half of the year."

Competition is likely to remain stiff and the packaging markets are seemingly changing rapidly, but we think International Paper's balance sheet and free cash flow offer flexibility to adapt and defend its position as the largest containerboard manufacturer in the United States. While analysts have grown pessimistic on the earnings outlook, IP currently trades for just 13 times NTM projections and a recent dividend increase has pushed the yield to 5.0%. Still thinking that IP is a play on the growth of e-commerce, our Target Price is now $63.

Celanese (CE – $111.16) saw its shares plunge more than 9% last week after the specialty chemicals manufacturer reported Q4 financial results that missed expectations on both the top- and bottom-lines. Celanese announced adjusted EPS of $1.99, which trailed consensus estimates of $2.15. Revenue also fell short of estimates ($1.43 billion versus $1.53 billion). Operating profit in all three segments (Engineered Materials, Acetate Tow and Acetyl Chain) declined because of weak demand stemming from the trade war between the United States and China. Despite the tough quarter, CE enjoyed an overall strong 2019.

"Against significant challenges throughout 2019, underpinned by disappointing global demand, our teams demonstrated great resiliency in delivering the second strongest performance in Celanese history. In this environment, our heightened focus on the factors within our control, including a robust productivity program and high-return capital deployment, has allowed us to weather these challenges and remain positioned to deliver on our long-term growth ambitions in 2020 and beyond," commented CEO Lori Ryerkerk.

"As demand levels in the fourth quarter were softer than anticipated, we do not expect any meaningful improvement in the demand landscape across 2020 versus 2019. We are challenging our organization to offset significant incremental turnaround expenses in the year to reach 2020 adjusted earnings of $11 per share driven by factors within our control. Adjusted earnings per share in 2020 should be back half loaded as a result of cumulative returns from productivity and capital deployment as well as $70 to $80 million of turnaround expense in the Acetyl Chain and Engineered Materials occurring almost entirely in the first half. Our teams are hard at work executing on countless projects and initiatives at all levels of the organization that will be critical in delivering this growth target," concluded Ms. Ryerkerk

Despite continued operational headwinds, we note that management's 2020 profit target of $11 per share is 15% growth, which should hardly be disappointing. We continue to like Celanese and believe it can move higher still via geographic expansion and new application development. CE enjoys a cost advantage in many of its markets and we see the Advanced Engineered Materials business having attractive long-term growth potential. We also like CE's free cash flow generation which allows it to continue to strengthen its financial base, while returning capital to shareholders. It is worth noting that shares currently trade at only 9.5 times NTM adjusted EPS expectations. Shares also yield 2.4%. Our Target Price has been trimmed to $152.

Caterpillar (CAT – $131.35) saw its shares drop 3% Friday amid the market-wide selloff, even as the construction equipment manufacturer reported Q4 financials before market open that included a significant bottom-line beat (EPS of $2.63 vs $2.37), while full-year revenue declined 1.7% in 2019. Management was cautious in its outlook, saying that soft results are likely to extend into 2020 as global economic conditions have led many customers to defer capital spending with the manufacturing economy lagging. Guidance was lowered to $8.50 to $10.00 of adjusted profit per share in 2020, compared with 2019 adjusted profit of $11.06.

“We expect our sales in China to be flat to down 5%. We are actively monitoring the coronavirus for any potential impact. We expect EAME construction activity will be flat to slightly up, with growth in Europe slowing and Africa and the Middle East beginning to recover from low levels. The recovery in Latin America should continue, although from a low base, led by Brazil. As a result of these conditions, we expect that dealers, particularly in North America, will further reduce their inventories,” said CEO Jim Umpleby.

On a more positive note, he continued, “We reached some significant milestones with autonomous solutions in 2019. We continue to believe we’re at a tipping point for adoption of autonomy in mining. In 2019, the number of mining trucks running Cat’s autonomous solutions rose to 275, an increase of 48% over 2018. Our autonomous solutions are now working for 7 customers across 11 sites on 3 continents. Some customers have reported productivity benefits of up to 30% and have also reported positive enhancements to safety. Our customers are focusing on improving performance across their sites, so we expanded our automated solutions to include a broader portfolio of trucks, drills, tractors and underground mining products.”

CAT continues to have a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. While operational hurdles remain and aren’t likely to disappear tomorrow, we like CATs leadership in heavy equipment management technology and software solutions. We also think there is potential for increased global infrastructure spending and that it could be an election year topic. A shift toward leaner operations should make the company more defensible throughout changing business environments, enabling it to persist in returning capital through share buybacks and dividend increases over the long-term. Shares yield an attractive 3.1%, while the company continues to deliver strong operating cash flow. Nevertheless, our Target Price for CAT has been reduced to $176.

Shares of staffing solutions group **ManpowerGroup** (MAN – $91.49) jumped nearly $5 in pre-market trading on Friday morning on a slight top-line and a huge bottom-line beat for Q4, before sharply reversing course and ending the day more than $2 below Thursday’s close. For the three-month period, MAN posted earnings per share of $2.33, versus the consensus analyst estimate of $2.04, and $7.81 for the full year. Revenue totaled $5.2 billion in the quarter, roughly 3.6% lower than the year-ago period. Management expects earnings per share for Q1 2020 to be in the range of $1.33 to $1.41, including currency effects, the mid-point of which is a tad better than consensus forecasts.

CEO Jonas Prising elaborated, “We continue to execute well in a slow growth global economy. Our fourth quarter performance reflects a challenging revenue environment in Europe, partially offset by revenue growth in the Americas and most markets within APME. Revenue in the fourth quarter came in at $5.2 billion, down 2% year-over-year in constant currency. On a same-day basis, our underlying organic constant currency revenue decreased by 1.5%, representing a step down from our third quarter flat revenue trend on the same basis. This decrease from the third quarter trend was mainly driven by the U.S. where the manufacturing environment has become more difficult in recent months. The Nordics, which has been experienced similar issues in manufacturing, and Australia, where we've exited certain low-margin clients. These decreases were partially offset by improvements in the revenue trend in the U.K., Italy, Germany and the Netherlands."

He continued, "Operating profit for the fourth quarter was $192 million, down 10% in constant currency. Operating profit margin came in at 3.7%, down 30 basis points in constant currency from the prior year. Our performance in the quarter reflects a strong gross profit margin improvement, driven by improved mix and successful margin initiatives. We managed SG&A very closely in the quarter and are continually monitoring costs, considering the economic environment within our key markets, while at the same time, continuing our investments in technology."

Despite a tightening labor market and slowing manufacturing environment in the U.S., and lackluster to non-existent global growth, we continue to like MAN's broad geographic footprint, wide range of offerings, good expense management and solid balance sheet. The employment market has varied in strength by region, but we think that MAN has been able to weather these differences well. Shares offer a yield of nearly 2.4% and trade at less than 12 times forward earnings expectations. We think that the stock should have been up on the Q4 results and outlook and we've adjusted our Target Price for MAN higher to $136.