Market Commentary Monday, February 24, 2020

February 24, 2020

EXECUTIVE SUMMARY

Newsletter Portfolio Sales – Updates on LRCX
Coronavirus – Still a Major Concern
2014 Virus Perspective – Ebola and Stocks
Econ Data – Favorable Domestic Stats
Global Growth – IMF Trims Forecast
Interest Rates – Yields Plummet; Attractiveness of Equities Rises
Miracle on Ice – 16.5% Prime Rate in 1980!
Sentiment – Folks Still a Bit Too Optimistic for our Liking
Miracle of Compounding – Dow 50000 Not So Far-Fetched
Stock News – Updates on MCK, SFL, MDT, ALB, BHP, MOS, NTR, HSBC, WMT, AXAHY, NEM, ALIZY & DE

Market Review

A little more housekeeping before this week's missive. As discussed on our *Sales Alert* on Wednesday, February 19, we sold a portion of our **Lam Research** (LRCX – $316.80) stake for our newsletter portfolios on Friday, February 21. Those sales included 70 shares of the semiconductor capital equipment maker for TPS Portfolio at $318.9931. We will use that same $318.9931 price for the sale of 46 Lam shares held in our hypothetical PruFolio.

Given that news on the human front remains bleak in regard to the novel coronavirus (COVID-19),…

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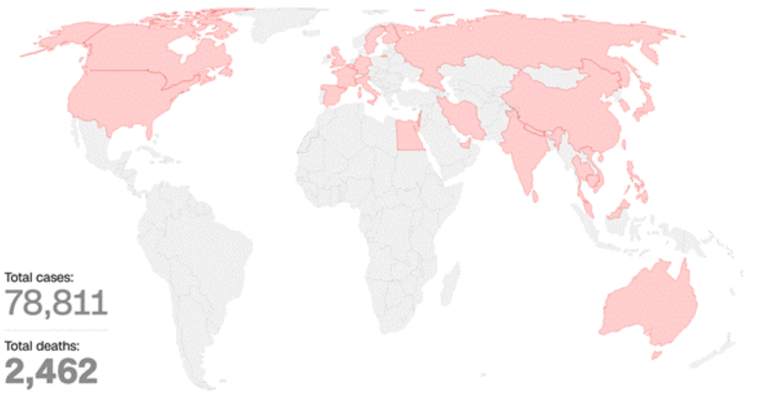
THE PRUDENT SPECULATOR
CNN.com Coverage of COVID-19

Coronavirus' global spread

Authorities in 32 countries and territories have reported more than 78,000 novel coronavirus cases since Dec. 31. The vast majority of cases and deaths have been in mainland China, where the outbreak began.



Total cases:
78,811

Total deaths:
2,462

Reported cases (and deaths)

Mainland China	76,936 **(2,442)**	United States	35	United Arab Emirates	13	Russia	2	Lebanon	1
South Korea	602 **(5)**	Iran	28 **(5)**	France	12 **(1)**	Spain	2	Nepal	1
Japan	132 **(1)**	Taiwan	26 **(1)**	Macao	10	Belgium	1	Sri Lanka	1
Singapore	89	Australia	22	Canada	9	Cambodia	1	Sweden	1
Italy	76 **(2)**	Malaysia	22	United Kingdom	9	Egypt	1	Other*	634 **(2)**
Hong Kong	70 **(2)**	Germany	16	India	3	Finland	1		
Thailand	35	Vietnam	16	Philippines	3 **(1)**	Israel	1		

* Cases identified on a cruise ship currently in Japanese territorial waters.

CNN Last updated: February 23, 2020 at 4:00 a.m. ET
Source: World Health Organization
Graphic: Henrik Pettersson, Byron Manley and Sergio Hernandez, CNN

What we're covering here

- **Death toll rises:** The number of deaths from the novel coronavirus has risen to 2,465 worldwide. There are over 79,930 cases globally, and 20 deaths outside mainland China.
- **South Korea spike:** Cases in the East Asian country have surged past 600. Around half the total cases are associated with a branch of a religious group in the south of the country.
- **Biggest outbreak outside Asia**: The total of confirmed cases in Italy has risen from three to 132 over the weekend, a spike that is attributed to a rise in infections in the country's north.
- **Middle East spread:** Iran's health ministry has confirmed 43 cases of the virus, including eight deaths. Lebanon and Israel have reported their first cases.

…while numerous companies, including personal electronics giant **Apple** (AAPL – $313.05) issued warnings about the impact on their international sales and the global supply chain, the U.S. equity markets held up quite well last week, all things considered. True, the Dow Jones Industrial Average had a couple of triple-digit plunges on Thursday and Friday, and that popular index dropped 1.36% for the week, but one might have expected a much bigger short-term setback, given what transpired back in 2014 with the Ebola scare.

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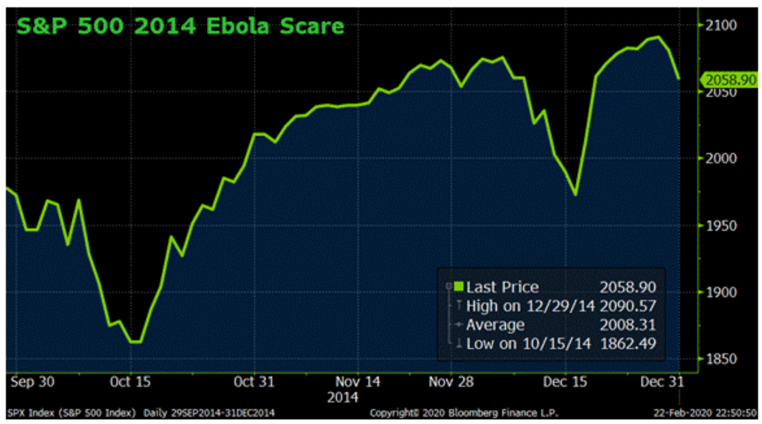
THE PRUDENT SPECULATOR
Most Recent Virus (Ebola) Scare in 2014

No doubt, COVID-19 is extremely serious, given that it is highly contagious, with a high number of cases having now hit outside of China (e.g. South Korea, Iran and Italy), but the Western Africa Ebola virus killed 11,300 people from 2014-2016. Obviously, the latest coronavirus outbreak is causing a far greater global economic hit, but thus far the U.S. equity markets have held up remarkably well, given that stocks fell 6% in the weeks that followed that Sept. 29, 2014, *Businessweek* cover.



Certainly, it would not be a surprise if the current downturn becomes the 31st decline of 5% since the end of the Financial Crisis in March 2009,…

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THE PRUDENT SPECULATOR
Ups and Downs Aplenty…Just Since '09

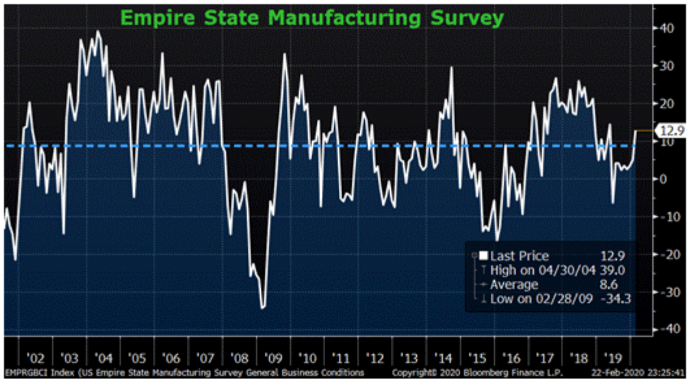
S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Opposite Direction

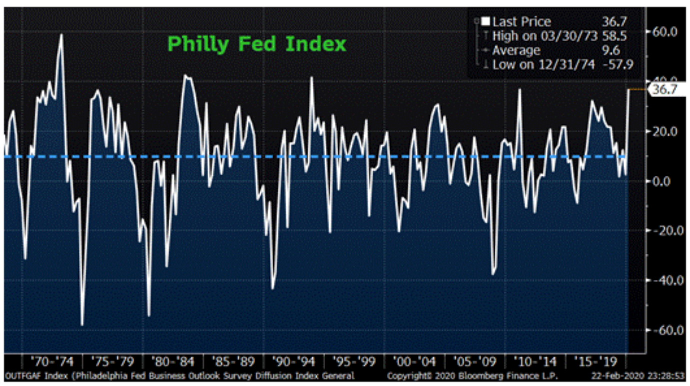
2/9/2009	3/9/2009	-22.23%	BEAR	3/9/2009	3/26/2009	23.11%	BULL
3/26/2009	3/30/2009	-5.44%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	6/3/2019	7/24/2019	10.02%	BULL
7/24/2019	8/14/2019	-6.12%	BEAR	8/14/2019	2/19/2020	19.21%	BULL
	Average Drop	**-8.88%**	**BEAR**		**Average Increase**	**14.71%**	**BULL**

While the S&P 500 skidded 6.8% during an ugly May 2019, and fell 6.1% from late-July to mid-August, few likely realize that these were the 29th and 30th pullbacks of 5% or more without an intervening 5% recovery just since the Financial Crisis market low on March 9, 2009. Happily, the returns in the 30 periods where the S&P has gained more than 5% over the past 10+ years have dwarfed the losses.

…but there were several strong numbers out last week on the health of the U.S. economy, including the much-maligned factory sector.

THE PRUDENT SPECULATOR
Improving Manufacturing Data



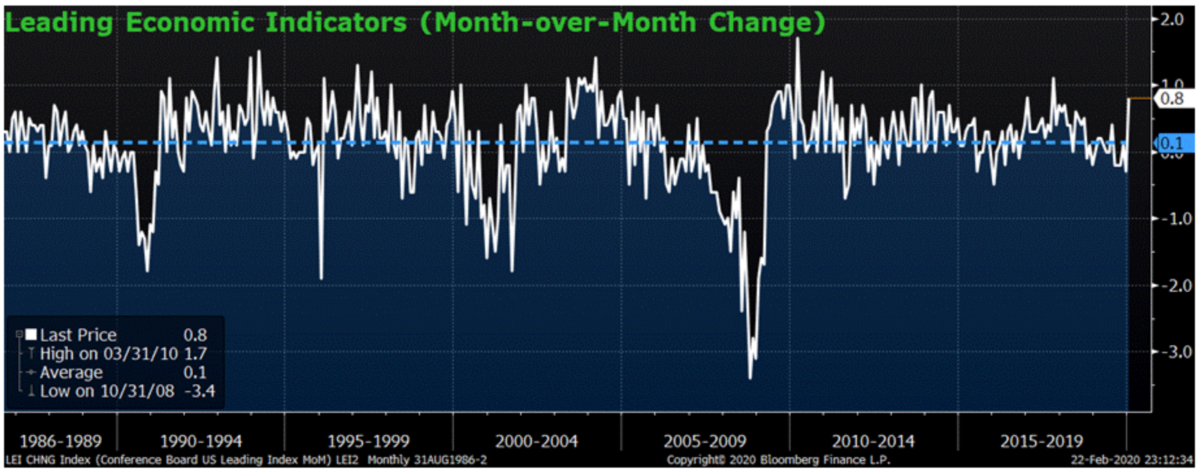


With the numbers benefitting from easing of tensions in the U.S.-China trade battle, the Empire State gauge of manufacturing activity in the New York area for February came in well above estimates at 12.9, indicating expansion in the factor sector. It was an even better story with the 36.7 read on the Philadelphia Fed's February measure of manufacturing activity in the mid-Atlantic region hitting the highest level in three years.

And, while we respect that the Markit Manufacturing PMI and Services PMI out on Friday both came in well below expectations, statistics on housing starts, building permits and existing home sales out during the week all exceeded estimates, while the important forward-looking index of Leading Economic Indicators had a surprisingly strong uptick.

THE PRUDENT SPECULATOR
Forward-Looking January LEI = 0.8%

The forward-looking index of Leading Economic Indicators jumped 0.8% on a month-over-month basis in January. A sharp drop in initial claims for unemployment insurance, increased housing permits and a rosier consumer outlook for the economy boosted the Conference Board's tally. The keeper of the metric added that the current 2% economic expansion (the COVID-19 impact is a big risk), appears likely to continue.



Of course, we realize that the near-term outlook is anything but certain, and the International Monetary Fund warned this weekend that COVID-19 is likely to shave 0.1% off global GDP growth, with IMF Managing Director Kristalina Georgieva adding, "But we are also looking at more dire scenarios where the spread of the virus continues for longer and more globally, and the growth consequences are more protracted,"…

THE PRUDENT SPECULATOR
IMF Blog Post – February 19, 2020

After disappointing growth in 2019, we began to see signs of stabilization and risk reduction, including the Phase 1 U.S.-China trade deal. In January, the IMF projected growth to strengthen from 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent in 2021. This projected uptick in growth is dependent on improved performance in some emerging market and developing economies.

Monetary and fiscal policy have been doing their part. In fact, monetary easing added approximately 0.5 percentage points to global growth last year. Forty-nine central banks cut rates 71 times as part of the most synchronized monetary action since the global financial crisis.

But the global economy is far from solid ground. While some uncertainties have receded, new ones have emerged. The truth is that uncertainty is becoming the new normal.

The coronavirus is our most pressing uncertainty: a global health emergency we did not anticipate in January. It is a stark reminder of how a fragile recovery could be threatened by unforeseen events. There are a number of scenarios, depending on how quickly the spread of the virus is contained. If the disruptions from the virus end quickly, we expect the Chinese economy to bounce back soon. The result would be a sharp drop in GDP growth in China in the first quarter of 2020, but only a small reduction for the entire year. Spillovers to other countries would remain relatively minor and short-lived, mostly through temporary supply chain disruptions, tourism, and travel restrictions.

However, a long-lasting and more severe outbreak would result in a sharper and more protracted growth slowdown in China. Its global impact would be amplified through more substantial supply chain disruptions and a more persistent drop in investor confidence, especially if the epidemic spreads beyond China.

…but investors have again piled into the perceived safety of government bonds,…

Low Interest Rates Likely to Stay

World Interest Rate Probability

Enable Overrides

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	1.75	Pricing Date	02/21/2020
Effective Rate	1.59	Cur. Imp. O/N Rate	1.584

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/18/2020	-0.081	-8.1%	-0.020	1.563	0.250
04/29/2020	-0.345	-26.4%	-0.086	1.498	0.250
06/10/2020	-0.726	-38.1%	-0.182	1.402	0.250
07/29/2020	-1.025	-29.9%	-0.256	1.327	0.250
09/16/2020	-1.376	-35.1%	-0.344	1.240	0.250
11/05/2020	-1.517	-14.1%	-0.379	1.204	0.250
12/16/2020	-1.858	-34.1%	-0.464	1.119	0.250
01/27/2021	-2.035	-17.7%	-0.509	1.075	0.250

No doubt, concerns about COVID-19's impact on global growth has been the main catalyst for the recent plunge in U.S. interest rates and the spike above $13 trillion in negative-yielding debt around the world, and the futures market is now signaling that investors expect two cuts (actually 2.035) in the current 1.5% to 1.75% target for the Federal Funds rate over the next 12 months.

…with the big drop in interest rates (even the 30-year U.S. Treasury is now yielding less than 2%) increasing the attractiveness of stocks, especially those with generous dividend yields.

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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 (4.53%), and that the S&P dividend yield (1.81%) is above the 10-Year yield (1.47%).

And speaking of interest rates, we found this weekend's celebration of the 40th Anniversary of the Miracle on Ice to be quite interesting, more for the front-page story to the right of the one discussing the U.S. Olympic Hockey team's upset of the Russians.

THE PRUDENT SPECULATOR
Miracle on Ice 40 Years Later


"All the News That's Fit to Print"

The New York Times

LATE CITY EDITION

NEW YORK, SATURDAY, FEBRUARY 23, 1980

ANTI-SOVIET RIOTING BRINGS MARTIAL LAW TO AFGHAN CAPITAL

THREE PEOPLE REPORTED SLAIN

Unrest Is Said to Spread to Other Cities as Tass Cites Regime's Effort to End 'Plundering'

PRICE INDEX UP 1.4 %, THE MOST SINCE 1973; PRIME RATE AT 16.5%

SHARP ONE-DAY RISE

Record Cost of Business Loans Is Expected to Affect Consumers

ENERGY A BIG FACTOR

Gasoline Increases 7.4% — Costs for Region Advance Sharply

TEHERAN SAYS PANEL WILL ARRIVE TODAY

U.S. Defeats Soviet Squad In Olympic Hockey by 4-3

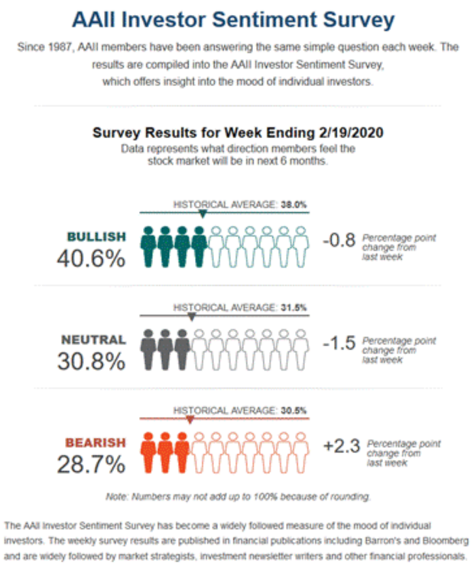
The most amazing *New York Times* headline from Feb 23, 1980, might not have been the U.S. Olympic Hockey victory over the USSR, but instead the Prime Rate at 16.5%, especially considering that the yield on the 10-year U.S. Treasury is today a microscopic 1.5%.

To be sure, we are braced for addition downside volatility (and we note that the equity futures are pointing to a sizable move lower when trading begins anew for the week), even as we continue to think the stocks that we own are very inexpensive, especially given yields on competing investments.

That said, we do confess to having a little extra cash from recent sales of portions of a couple of our holdings, and we are a bit concerned, given the contrarian nature of the metrics, that investor sentiment is still relatively upbeat,…

THE PRUDENT SPECULATOR
Sentiment: Saying and Doing

The latest Sentiment Survey of AAII members showed a still high optimism level of 40.6%, above the historical Bullish average.



Reversing, for a second straight week anyway, the exodus out of domestic stocks, folks moved into U.S. equity exchange traded and mutual funds in the latest week, per ICI data, though the love affair with bonds continues.

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

Week Ended	2/12/2020	2/5/2020	1/29/2020	1/22/2020	1/15/2020
Total Equity	7,593	12,906	-9,154	2,329	-1,222
Domestic	4,353	5,878	-12,571	-3,452	-4,523
World	3,240	7,028	3,416	5,781	3,301
Hybrid	409	406	-24	469	16
Total Bond	19,113	13,669	13,355	16,047	16,948
Taxable	15,860	10,681	10,166	12,958	13,674
Municipal	3,253	2,989	3,189	3,089	3,275
Commodities	541	832	696	1,348	104
Total	27,656	27,814	4,873	20,192	15,845

Source: Investment Company Institute

…while we weren't enthused about *The Wall Street Journal's* front-page story on February 18 discussing Dow 30000 and potentially loftier milestones,…

THE PRUDENT SPECULATOR
Contrarian Concern: Dow Milestone Talk

The celebration of Dow milestones by traders and financial journalists extends beyond license plates. Nicholas Tyburski and Jeff Coons, a duo in northwest Arkansas who started selling "Dow 20,000" hats on eBay a few years ago, have also created "Dow 25,000" hats and "Dow 30,000" headgear recently…They plan to keep marking 5,000-point milestones in case the recent rally stalls. Mr. Tyburski, a 40-year-old financial adviser, says he expects ***Dow 50000*** *to be the next major level that garners widespread attention. "Every time it hits a new threshold, it really sends a jolt to our sales," says Mr. Coons, 54, who started creating the novelty hats at Mr. Tyburski's request through his company PromoHog. They feature an arrow pointing upward connected to the "W" in Dow to distinguish the gear from other commemorative hats available online. When told about the license-plate phenomenon, Mr. Tyburski ordered a "DOW 30K" plate for his car. –* ***The Wall Street Journal, February 18, 2020***

…even as Dow 50000 is hardly far-fetched when one considers simple math and the Miracle of Compounding!

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THE PRUDENT SPECULATOR
Miracle of Compounding: Dow 50000

It is amazing how relative modest yearly return numbers can lead to substantial growth when time and simple math are applied. For example, Dow 50000 by the year 2030 would be achieved with annual price gains for the index of 5.6%...which is merely the historical average.

Miracle of Compounding - Dow 50000 by 2030

(Initial Value of Dow Jones Industrial Average = 29000, February 2020)

	Inflation 2.9%	Intermediate Gov't Bonds TR 5.1%	Dow Jones Industrial Average Price Return 5.6%	Corporate Bonds TR 6.1%	S&P 500 TR 10.0%	Fama/French Dividend Stocks TR 10.6%	Fama/French Value Stocks TR 13.2%
Feb-20	29,000	29,000	29,000	29,000	29,000	29,000	29,000
Feb-21	29,841	30,479	30,624	30,769	31,900	32,074	32,828
Feb-22	30,706	32,033	32,339	32,646	35,090	35,474	37,161
Feb-23	31,597	33,667	34,150	34,637	38,599	39,234	42,067
Feb-24	32,513	35,384	36,062	36,750	42,459	43,393	47,619
Feb-25	33,456	37,189	38,082	38,992	46,705	47,993	53,905
Feb-26	34,426	39,085	40,214	41,370	51,375	53,080	61,021
Feb-27	35,425	41,079	42,466	43,894	56,513	58,706	69,075
Feb-28	36,452	43,174	44,845	46,572	62,164	64,929	78,193
Feb-29	37,509	45,376	47,356	49,412	68,380	71,812	88,515
Feb-30	38,597	47,690	50,008	52,427	75,219	79,424	100,199
Feb-35	44,528	61,156	65,668	70,490	121,140	131,439	186,249
Feb-40	51,370	78,425	86,234	94,778	195,097	217,521	346,200
Feb-45	59,263	100,569	113,239	127,433	314,206	359,978	643,515

Compounded at average annualized rates that have been the historical returns on each investment from June 1927 to Decembert 2019. Source: Kovitz Invesment Group using data from Morningstar, Bloomberg and Professor's Eugene F. Fama & Kenneth R. French. Past performance not a guarantee of future performance.

Stock Updates

Jason Clark, Chris Quigley and Zach Tart take a look at 13 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. 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/.

On February 12, **McKesson** (MCK – $170.96) announced an interesting exchange offer related to the split-off of its wholly-owned subsidiary, PF2 Spinco, Inc. ("SpinCo"), which holds McKesson's interest in healthcare technology concern Change Healthcare (CHNG – $16.01).

We say interesting as for each $100 of McKesson common stock accepted in the exchange offer, the firm is offering $107.53 of SpinCo Common Stock (a 7.53% premium), subject to an upper limit of 11.4086 shares of SpinCo per share of McKesson. With an expiration date of March 9, 2020, which may be extended, the valuation will be a simple average calculation of the Value Weighted Average Price (VWAP) on March 3, March 4, and March 5, 2020.

Given the hefty 7%+ potential incentive to participate (odd-lot MCK holders of 99 or fewer shares will not be subject to proration), we are strongly leaning toward tendering our shares, though we are keeping an eye on both MCK and CHNG as the VWAP dates approach. Here is where things stood as of Friday.

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THE PRUDENT SPECULATOR
MCK – Generous Offer to Swap for CHNG

		McKesson Common Stock		Change Common Stock		Exchange Ratio	
Day	Date	Daily VWAP	Indicative Calculated Per-Share Value	Daily VWAP	Indicative Calculated Per-Share Value	Indicative Exchange Ratio (1)(2)	Upper Limit in Effect?
1	2/10/2020	$162.2624	N/A*	$15.7409	N/A*	N/A*	N/A*
2	2/11/2020	$163.9014	N/A*	$15.6440	N/A*	N/A*	N/A*
3	2/12/2020	$167.6253	$164.5964	$15.7393	$15.7081	11.2671	No
4	2/13/2020	$168.0414	$166.5227	$15.9027	$15.7620	11.3600	No
5	2/14/2020	$167.5770	$167.7479	$15.9973	$15.8798	11.3587	No
6	2/18/2020	$167.7320	$167.7835	$15.9707	$15.9569	11.3062	No
7	2/19/2020	$167.7237	$167.6776	$15.7419	$15.9033	11.3372	No
8	2/20/2020	$170.2519	$168.5692	$15.7338	$15.8155	11.4086	Yes
9	2/21/2020	$170.7626	$169.5794	$15.9042	$15.7933	11.4086	Yes
10		$		$			
11		$		$			
12		$		$			
13		$		$			
14		$		$			
15		$		$			
16		$		$			
17		$		$			
18		$		$			
19		$		$			
20		$		$			

(1) Subject to proration. See the section in the Prospectus—Offer to Exchange titled "The Exchange Offer—Terms of the Exchange Offer—Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of McKesson Common Stock."
(2) Subject to an upper limit of 11.4086 shares of SpinCo Common Stock for each share of McKesson Common Stock accepted in the exchange offer. See the section in the Prospectus—Offer to Exchange titled "The Exchange Offer—Terms of the Exchange Offer—Upper Limit."
* No indicative calculated per-share values or indicative exchange ratios are provided for the first two trading days of the exchange offer period as such values require daily VWAP data for three trading days.

Those who tender MCK, worth $170.96 as of this writing, would today get 11.4086 CHNG shares, worth $182.65. True, various custodians will charge a reorganization fee to participate, but it is hard to pass up $11+ per share of extra consideration, even as we continue to like our MCK ownership, despite the risks of ongoing opiod litigation, potential drug pricing legislation eventually emerging from Washington and a tough competitive landscape. Of course, MCK shares were trading at $138.32 at the start of the year, so they have had quite a run of late.

While we are thinking that if we did tender we would simply swap out of the CHNG shares we receive and use those dollars to buy back into McKesson, **Cardinal Health** (CAH – $59.72) or another undervalued name, hopefully capturing at least 5% on the transactions for our trouble, we note that both MCK and CHNG presently boast forward P/E ratios of 11, so it isn't as if we would be trading an inexpensive stock for a richly priced one. Still, we understand that there is a risk that CHNG craters before we are able to swap out of it, so we understand that some may wish to pass on this offer.

We note that brokerage house deadlines are fast approaching, so we will likely be tendering (assuming no big change in the premium that now exists) our shares in the next couple of days.

Marine shipping concern **SFL Ltd.** (SFL – $13.21) reported earnings per share of $0.24 in Q4 of fiscal 2019, versus the $0.27 estimate, while much of the figure was the result of a gain on the firm's equity investments. Operating revenue in the quarter was roughly in line with expectations at $120 million, bringing the full-year number to over $450 million. The company realized close to $83 million of proceeds through the sale of close to 2/3 of its position in Frontline Ltd in the quarter at a significantly higher price than where that stock is presently trading, though Ship Finance still owns a 3.4 million share stake in the oil tanker company.

SFL shares are off nearly 9% since the beginning of the year as disruption from the coronavirus has reduced shipping demand, causing vessel rates to dip. However, given that much of its revenue is contractual, management claims that the virus has yet to wreak much havoc on the business. The exception is a few ships in drydock having scrubbers installed in China, where completion dates have been pushed further out into the current year.

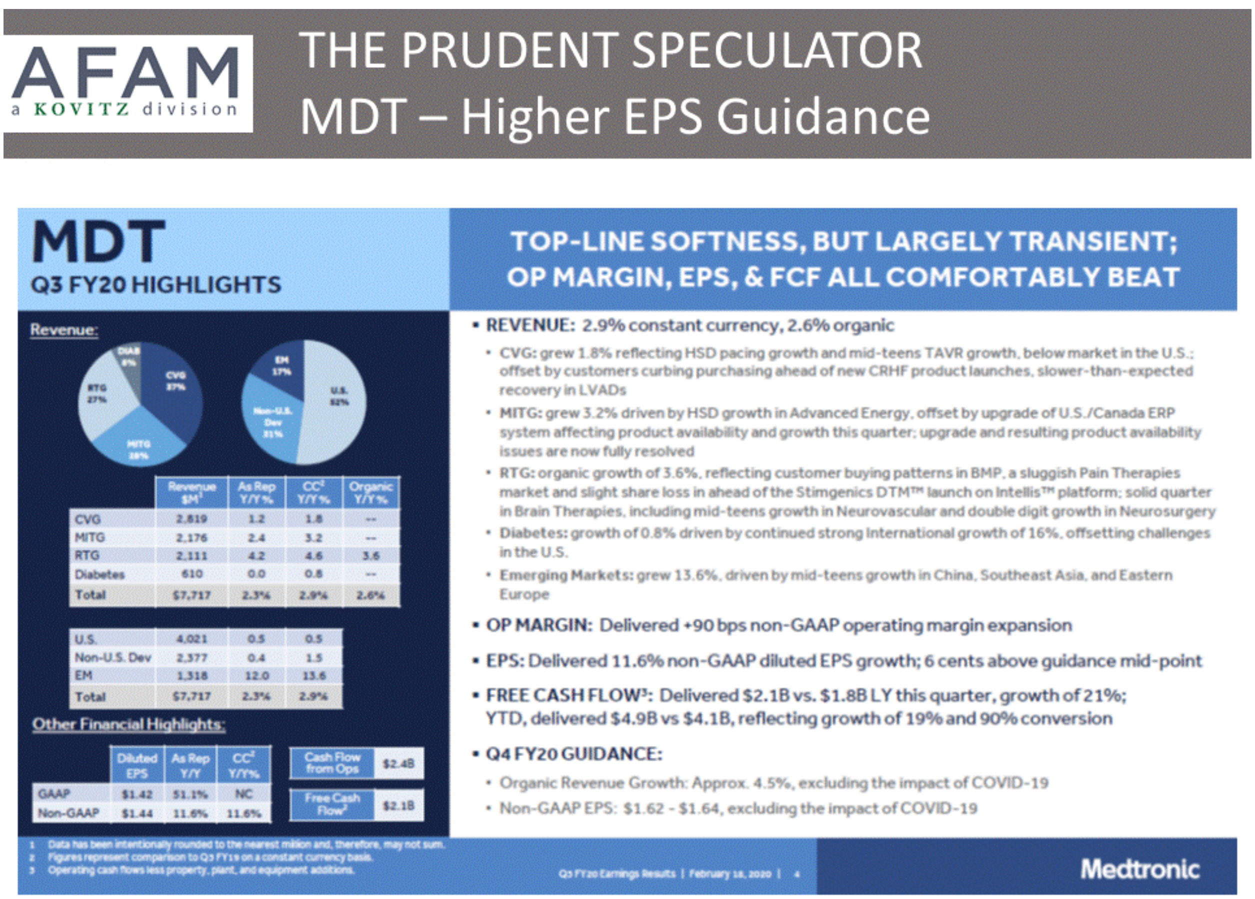
CEO Ole Bjarte Hjertaker commented on the current positioning, "Following the recent charter extensions, our charter backlog now stands at approximately $3.6 billion, and of this, nearly $500 million has been added in the last 12 months. Over the years, we have changed both fleet composition and structure, and we now have 88 vessels and rigs and no vessels remaining from the initial fleet in 2004. We have gone from a single asset class charter to 1 single customer to a diversified fleet and multiple counterparties. And over time, the mix of the charter backlog has varied from 100% tankers to nearly 60% offshore and at 1 stage to containers now being the largest segment with more than 50% of the backlog. We do not have a set mix in the portfolio, focuses on evaluating deal opportunities across the segments and try to do the right transaction from a risk-reward perspective."

He continued, "Over time, we believe this will balance itself out from a segment mix perspective. Last year, we evaluated transactions totaling more than $22 billion in aggregate or more than 4x our balance sheet. It is, therefore, more of a coincidence that the gross volume of investments in 2018 was higher than last year, but we try to be careful and conservative in our investments and not just invest because money is burning in our pockets. Our strategy has also been to maintain a strong technical and commercial operating platform in cooperation with our sister companies in the Seatankers group. This gives us the ability to offer a wide range of services to our customers from structured financing to full-service time charters. But more importantly, we also believe it gives us unique access to deal flow in our core segments. And unlike most other companies with a financing profile in the maritime world, more than 60% of our cash flow come from vessels on time charter, where we control the maintenance and the operating standard of the vessel and less than 40% from bareboat charter vessels, where the customer is doing this."

We appreciate the stability management has built into an otherwise potentially volatile and unpredictable maritime shipping industry. In addition, the volume of deals evaluated relative to investments made demonstrates operational discipline, though with turmoil in the marketplace, we might hope that the company becomes a little more aggressive in its deal making. Of course, we can't complain about the job management has done. As Mr. Hjertaker explained, "SFL Corporation is entering the new decade with a strong balance sheet and significant capital available for new investments. We have now declared our 64th consecutive dividend, and have been profitable every quarter since our inception, which is a unique combination in the maritime world…We have demonstrated our ability to continuously both renew and diversify our portfolio of assets and charters, supporting a long term distribution capacity. This has been achieved over multiple shipping cycles, by taking a very active approach to structuring our investments and managing our balance sheet. As a result nearly $27 per share or $2.3 billion in aggregate has been returned to shareholders through dividends since 2004."

With a massive 10.6% yield and trading for a reasonable 1.3 times book value, our Target Price for SFL remains $16.

Medtronic PLC (MDT – $113.28) saw its shares drop approximately 3% last week following the medical device maker's release of its fiscal Q3 2020 results. While MDT reported adjusted EPS of $1.44, which outpaced consensus expectations of $1.38, revenue for the three-month period of $7.72 billion lagged average forecasts of $7.81 billion. The majority of the top-line miss was driven by weakness in ICDs (defibrillators), TAVR (transcatheter aortic heart valves) and MITG (minimally invasive therapies group). However, management believes it will see a relatively rapid rebound in revenue growth to 4.5% in fiscal Q4, with sales accelerating in 2021 and 2022, and EPS rising at least 8% in fiscal 2021.



“Organic revenue growth was light this quarter, due largely to transient issues,” said CEO Omar Ishrak. “However, we continue to feel very good about the fourth quarter, and in the third quarter, a softer top-line was more than offset by significant margin expansion, resulting in better-than-expected earnings per share and free cash flow.” Management updated guidance for the year, raising the fiscal 2020 EPS outlook to a range of $5.63 to $5.65, from the prior range of $5.57 to $5.63. Those numbers do not include any impact from the coronavirus outbreak. This implies fourth quarter adjusted EPS in the range of $1.62 to $1.64.

While MDT shares experienced a solid 2019, the price has pulled back more than 6% since the all-time high a few weeks ago. As such, we continue to believe that MDT offers appealing long-term upside, and remain fans of the company’s diverse portfolio, as it seems to continuously offer up new products to keep the growth engine going as older products mature. With domestic demographic trends in its favor, we continue to like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT shares trade at a reasonable level for a medical technology business at 19.2 times NTM’s adjusted EPS expectations. While the dividend payout on MDT isn’t huge, believe it or not as of Friday’s close it was equal to the yield on the 30-year U.S. Treasury bond (1.91%). We have boosted our Target Price for MDT to $125.

Shares of **Albemarle** (ALB – $92.43) continued their recent advance, jumping another 5% during an otherwise not so great equity market week after the special chemical producer reported Q4 financials. While we were fine with the results, the rise in ALB shares has been less about near-term results or long-term potential and more about the meteoric rise of electric-car-maker Tesla. ALB shares have gained more than 26% so far in 2020, as enthusiasm for Tesla stock and electric automobiles has spiked again. As a key miner of lithium, used in batteries, Albemarle shares have been pulled along for the ride.

Of course, it isn’t as if the stock is unworthy of investor affection. After all, the company posted Q4 adjusted EPS of $1.73, versus expectations of $1.71. Revenue for the quarter came in at $993 million, just below the $1,003 million consensus analyst estimate. For all of 2019, ALB turned in adjusted EPS of $6.04, some 10% better than in 2018.

“Our ability to integrate, execute and adapt to market conditions contributed to our strong growth and notable achievements this year,” commented CEO Luke Kissam. “In 2019, we saw solid performances across our portfolio and expanded our market-leading position in Lithium with additional high-quality resources and greater nameplate conversion capacity. We also marked 25 consecutive years of dividend increases [the dividend yield is now 1.6%]. We are stronger today than we have ever been. Our long-term strategy will deliver robust growth in a sustainable way and will drive value for all Albemarle stakeholders.”

Management announced that its four pillar plan is still intact and believes it will continue to drive growth. The four pillars include: GROW by investing in lithium and generating strong free cash flow across the portfolio to support lithium assets; MAXIMIZE market-leading Bromine and Catalysts businesses as strong cash generators; integrate systems, advance operational excellence, and implement initiatives to drive significant and sustainable cost savings; ASSESS and evaluate the company portfolio for opportunities to divest non-core businesses and acquire or build lithium conversion assets; and INVEST with a disciplined capital allocation approach focused on annual dividend growth, maintaining its investment grade credit rating, and investing in lithium capacity and productivity improvements.

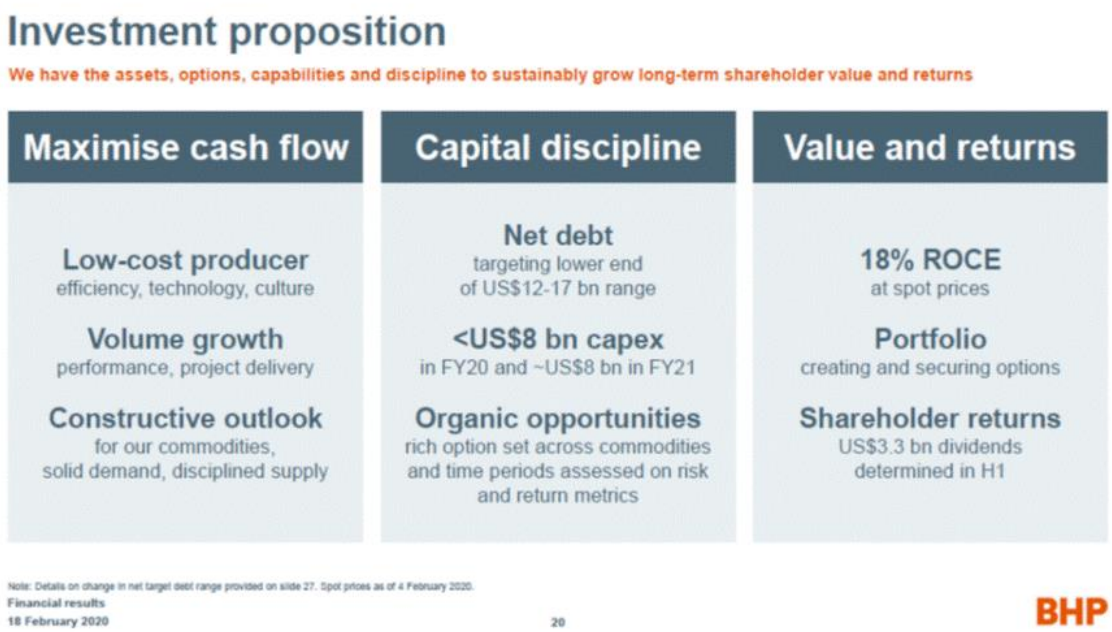
Mr. Kissam added, “We have the best lithium resources in the world and they will serve demand over the next 10 to 15 years. Albemarle remains a strong cash generator and we will be free cash flow positive in 2021. This will give us flexibility to invest in high-growth areas, strengthen our leadership position, and return capital to our shareholders.”

Of course, the current year is not shaping up to be great in terms of earnings momentum as the consensus analyst EPS estimate now stands at $4.90. Still, while there is no guarantee that ALB shares will continue their price run, and we note that they did skid shortly after we bought our positions before rebounding handsomely of late, we think that over the long-term ALB will continue to have a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world’s leading car companies race to get desirable EVs to market. In addition, lithium is used in backup and storage batteries for the power grid.

Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, ALB generates steady cash flows from its refining catalyst business. Our Target Price for ALB has been boosted to $117.

Shares of **BHP Group** (BHP – $50.41) sagged over 2% on the week even as the Australian natural resources giant reported earnings per share for its fiscal H1 2020 ending December 31 that beat analyst estimates ($2.05 vs $1.91). First-half revenue of $23.5 billion was in line with expectations, while the firm’s cost control pushed EBITDA up 15% year over year. Iron ore jumped to 48% of revenue, up from 37% in H1 2019 as BHP reduces its thermal coal exposure.

Mike Henry had the following to say about his new role as CEO, “I am very fortunate to be taking up the reins from Andrew Mackenzie, with the company’s foundation strong. We have a differentiated portfolio that is diversified, and exposed to different markets and different points in the economic development cycle. We have some of the world’s best assets that are supporting margins and giving us high-return organic growth options. We have a strong balance sheet supporting resilience and our ability to invest counter-cyclically, all backed up by the discipline and competition stimulated through the Capital Allocation Framework. We have delivered some outstanding outcomes on social value. In the last half, we moved to full desalinisation and green energy in Chile, and we have a strong brand in our production bases. To be absolutely clear, I am wholly committed to our approach on social value, and we will achieve the commitments that we have set out.”

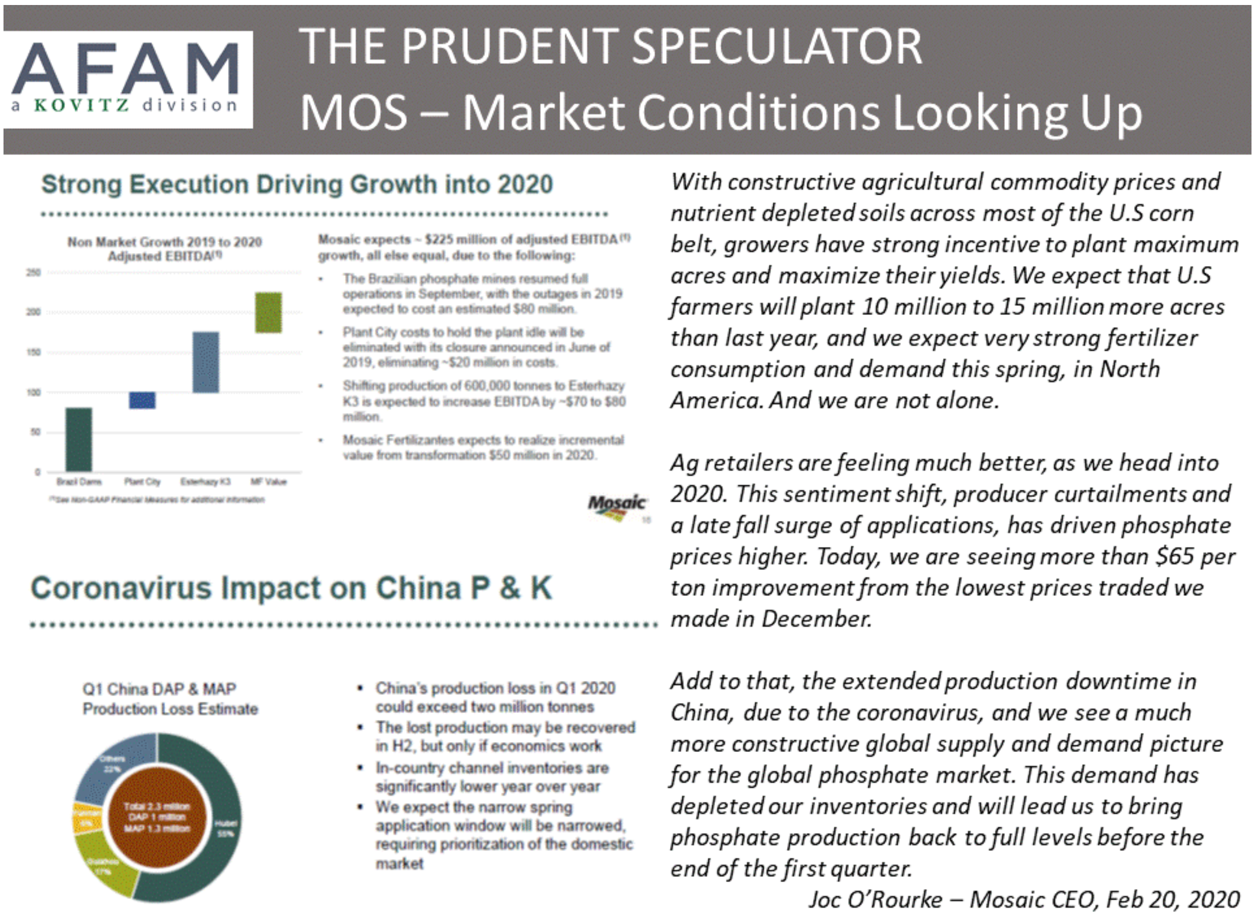


Though we understand that commodity prices are notoriously volatile, our Target Price for BHP is now $63. We note that the company has been a generous dividend payer through the years, and the shares yield north of 5% on an annualized basis, while they trade for less than 13 times full-year expected earnings.

Fertilizer and agricultural chemical firm **Mosaic** (MOS – $19.19) announced its Q4 results last week, posting a loss of $0.29 per share, much deeper than the $0.05 of red ink analysts had expected. Mosaic reduced production to meet weak fertilizer demand that dried up throughout the year, which led to higher marginal costs of production. For the full year, Mosaic turned in EPS of $0.19 on revenue of $1.9 billion.

Although weather and macroeconomic conditions can be largely unpredictable, the company worked through a number of initiatives in the past year to better its position for when the cycle does turn. CEO Joc O’Rourke commented, “In 2019, we made significant progress in managing and transforming each of our business units. In potash, we demonstrated that we could exceed major development milestones allowing us to accelerate the development of our K3 mine at Esterhazy, Saskatchewan. We increased the pace of capital allocated to this mega project to match the execution pace so that we could eliminate brine management costs at K1 and K2 a full 2.5 years earlier than originally planned. These cost savings, combined with lower cost of production should result in a total cash savings of approximately $300 million…Our Mosaic

Fertilizantes business in South America has made tremendous strides since we completed the Vale Fertilizantes acquisition 2 years ago. We've now achieved approximately $330 million in annual net synergies, well above our original target, and we've committed to achieve an additional $200 million in annual EBITDA benefit by the end of 2022."

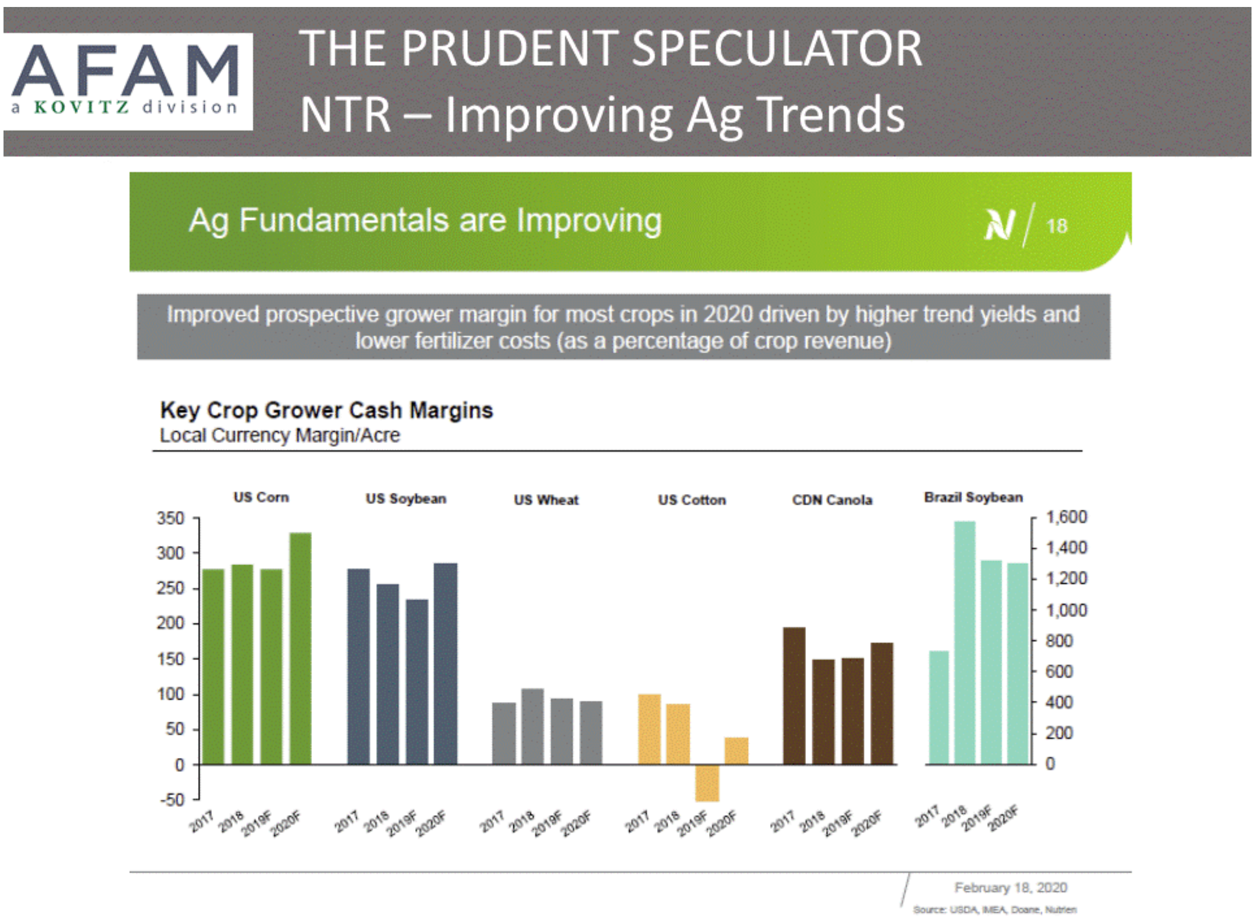


Looking ahead, a solid recovery is expected in the U.S. agricultural market in 2020 as a number of factors are expected to drive demand and support phosphate prices, one of which being the coronavirus. Mosaic's Senior VP Richard N. McLellan detailed, "Beyond the imminent humanitarian issues, we know there will be impact in China's supply and demand for both phosphates and potash. Approximately 30% of Chinese phosphate rock, 30% of China's DAP and 45% of China's MAP are produced in Hubei province, which is the epicenter of this outbreak and has been subject to the most restricted rules enacted to reduce the spread of the virus."

While we respect that a lot of patience has been required to stay invested in the crop nutrients space, Mosaic's products continue to be a vital element of plant development and aid in boosting crop yields necessary to feed the world's growing population. Analysts presently expect EPS of $0.78, $1.37, and $1.91 in 2020, 2021 and 2022, respectively. In addition, the remaining share repurchase authorization is enough to reduce the current market capitalization by nearly 10% at current levels. Shares yield a modest 1.0% and our Target Price has been trimmed to $34.

Canadian crop nutrient concern **Nutrien** (NTR – $42.56) released Q4 results last week that significantly undershot analysts estimates ($0.09 vs. $0.24). In Q4, NTR's Retail, Potash and Nitrogen segments grew EBITDA 8%, -62%, and -19% year-over-year, respectively. The firm's customers have suffered from several consecutive seasons with a narrow application window. Despite the earnings miss, shares rose nearly 3% on a positive outlook for North American farming demand and firming fertilizer prices for 2020. Management expects $3.8 billion to $4.3 billion of EBITDA this year.

CEO Charles Margo commented, "Nutrien's earnings held up well in 2019 and we generated strong free cash flow in a very tough agriculture market. We executed on our strategic plan, growing our Retail business with several strategic acquisitions and made great strides with the roll-out and adoption of our leading Retail digital platform and financial tools. Agriculture fundamentals are strengthening and grower sentiment is positive. We expect higher planting and favorable farm economics to support strong North American crop input demand in 2020."



Mr. Munro elaborated, "The U.S. ag market should fully recover as we expect more than 14 million additional acres to be seeded this spring or about a 6% increase from last year. Almost all of those additional acres will be planted to corn and soybeans. A second positive development is the resolution of the U.S.-China trade dispute. While it is uncertain when we will see U.S.

agricultural exports rise, there is little doubt it will be a significant improvement relative to the past 2 years."

We appreciate Nutrien's large retail presence with over 1,400 locations in the U.S. and Australia. Diversification across the three major crop nutrients and the strategy of selling directly to farmers continues to add a bit of stability to an otherwise volatile industry. We wouldn't be surprised to see the company buying its shares throughout 2020 as the board increased the repurchase program to approximately 7% percent of the outstanding stock. The company repurchased 36 million common shares in 2019 and 72 million over the past 24 months. The shares currently yield 4.2%, while we expect significant EPS growth over the next couple of years. That said, our Target Price remains $60.

Globally diversified bank **HSBC Holdings PLC** (HSBC – $36.46) disappointed investors, even as its Q4 financial results came in ahead of consensus analyst estimates on both the top- and bottom-lines. For the period, adjusted EPS were $0.73, $0.02 better than the estimate. Revenue for the period of $13.1 billion was just ahead of the $13.04 billion analysts were expecting. The problem was that management unveiled a plan to cut 35,000 jobs, with the company not surprisingly expressing concern about the coronavirus and unrest in Hong Kong, even as the new strategic direction is more heavily focused on Asia.

Group CEO Noel Quinn said, "Since Q3, we have developed a detailed restructuring plan to address the low-return portfolios of Europe and the U.S. and to reshape Global Banking and Markets. We have plans to reallocate freed up capital into higher-growth, higher-return businesses and markets. We have begun an ambitious simplification and cost-reduction program while increasing IT investment. This is a robust plan built around things we can control, predicated on reasonable revenue growth assumptions, combined with significant cost reduction and capital efficiency programs. We have reorganized our management structure to deliver at pace. We have established a dedicated transformation team to focus on executing the restructuring, with a separate team focused on building future growth strategies. And since my appointment in August, we have taken tough decisions to deliver quick results. In the fourth quarter, we reduced RWAs by $22 billion. We reversed the direction of travel on both cost and headcount, and we refreshed the executive management team to position us for execution. Now we need to evidence continued delivery, and I am totally committed to doing that."

Shares of HSBC have struggled to keep pace with other banks, and the company seems to be indefinitely stuck in restructuring mode. It would certainly be difficult to argue that unrest in Hong Kong and the spread of the coronavirus haven't adversely affected HSBC, but we think that they are recent challenges that put additional pressure on the bank, versus creating those challenges. On the positive side, however, we like the bank's global footprint, which gives it the unparalleled ability to offer services around the world and we believe HSBC's exposure to higher economic growth markets, as well as continued cost-cutting initiatives and efforts to improve operational efficiencies, could eventually boost the bottom line. Of course, we do like that the shares currently yield 6.8%, which includes the four regular quarterly dividends and an extra one that the company has paid out each April. While we note that every stock is fighting for a position in our broadly diversified portfolios, and our patience with HSBC is not without bound, our Target Price now stands at $46.

Despite turning in a fiscal 2020 Q4 that trailed expectations on the top- and bottom-line, shares of discount mega-retailer **Walmart** (WMT – $118.58) edged up on the week. Adjusted EPS for the period came in at $1.38, versus consensus analyst estimates of $1.44. WMT had sales of $141.7 billion which lagged the average forecast of $142.6 billion. While U.S. same-store sales continued to show positive 1.9% growth, the increase was below what investors were looking for.

Strength in grocery, health & wellness, and home & electronics was partially offset by softness in toys, media & gaming, and apparel. U.S. owned e-commerce sales grew 35% in the period and contributed +210 basis points to the U.S. comparable figure (this looks to be the strongest e-commerce comp contribution so far). The quarterly result put Walmart at 37% annual e-commerce growth in fiscal 2020, above its full-year target of 35%. WMT's dot-com growth benefitted from another strong quarter of grocery pickup & delivery (now available in 3,200 stores and over 1,600 stores, respectively) as well as strong performance by Walmart.com, which saw its highest quarterly growth rate of the year during the quarter. Net sales at Walmart International were $33 billion, an increase of 2.3%. Disruption in Chile negatively affected operating income by approximately $110 million.

CEO Doug McMillon commented, "We thank our associates for another good year. In Q4, we saw strong performance in the U.S. with eCommerce and Sam's Club plus strength in Mexico, India and China. We started and finished the quarter with momentum, while sales leading up to Christmas in our U.S. stores were a little softer than expected. The new year has started off well, and we look forward to another strong year. We remain focused on providing our customers with the best omnichannel experience from any retailer."

Fiscal 2021 full year guidance

The following guidance reflects the company's expectations for fiscal year 2021. Assumptions in the guidance include that economic conditions, currency rates and the tax and regulatory landscape remain generally consistent. The company continues to monitor the events in Chile and the Coronavirus outbreak and has not included any potential financial effects in its assumptions. Additionally, the guidance assumes no further change in fair value of the Company's equity investment in JD.com.

Metric	FY21 Guidance
Consolidated net sales growth	Around 3% in constant currency
Comp sales growth	• Walmart U.S.: at least +2.5%, excluding fuel • Sam's Club: minus 50 bps, excluding fuel and at least +3.0%, excluding fuel and tobacco
Walmart U.S. eCommerce net sales growth	Around 30%
Walmart International net sales growth	Around 4% in constant currency
Consolidated expense leverage[1]	Around 20 basis points
Consolidated operating income[2]	Similar to EPS growth with Walmart U.S. operating income growth near the upper-end of the growth rate range
Effective tax rate	25% to 26%
EPS[3]	$5.00 to $5.15, up 1.5% to 4.5% compared with FY20 adjusted EPS
Capital expenditures	Around $11 billion with a focus on store remodels, customer initiatives, eCommerce, technology and supply chain

Walmart

[1] Expense leverage to be around 40 basis points as compared with fiscal 2020 reported results.
[2] The fiscal 2021 Walmart U.S. and consolidated operating income growth is expected to be higher when compared to fiscal 2020 reported operating income.
[3] Fiscal 2021 EPS expected to decline about 1% to 4% as compared with fiscal 2020 GAAP EPS primarily as a result of the fair value change in the Company's equity investment in JD.com recorded in fiscal 2020.

3

We know that WMT's competitive landscape will only get more intense versus rivals Amazon, **Target** (TGT – $117.01) and numerous other players. Still, we continue to think that the steps the company has taken over the last few years to transform itself have built a strong foundation for long-term success. We continue to like that WMT generates strong free cash flow and remains committed to returning capital to shareholders via buybacks and dividends. Our Target Price has been lifted to $132.

French life insurance company **AXA SA** (AXAHY – $26.06) posted adjusted EPS of $2.60 for fiscal 2019, well below analyst estimates. Shares fell by 3% on the news, as the company reported that it expects more climate change-related insurance claims, as well as more severe events. The company said demand for insurance protection in China is rising and that despite the coronavirus pandemic, the market remained important for AXA.

CEO Thomas Buberl commented, "The Ambition 2020 was focused on 2 pillars. Focus and transform. On the focus side, we've clearly seen that we have gone back to growth. When I started as a CEO, we were at 0% growth. We are now at 5% growth with the focus on the preferred segments, and the whole organization is fully aligned on this, which is really good. On the transform side, this shift that I mentioned earlier from Life & Savings or from financial risk to technical risk has been accompanied by significant transactions, the quotation and the IPO of XL — of Equitable, which is done. The Swiss Group Life transformation, which is announced, which is in the process of being done. And certainly, the XL acquisition and integration is on a good journey. We are now completing the integration, and that means we can now move to a new phase, which is around acceleration of the profitability, acceleration of the simplicity of the company."

Looking forward, Mr. Buberl added, "When it comes to the free cash flow, we said between EUR 28 billion and EUR 32 billion. On a cumulative basis, we are at EUR 25 billion by the end of 2019, again, on a good journey. When it comes to the adjusted return on equity, the initial target was below the range that we have now. So now, we have already upgraded to 14% to 16%. We are now at 16%, which I think is a very attractive return on equity. And on the solvency, I spoke about it earlier. We want to be in the range of 170% to 220%. We are now at 198%. And the 198% of today is a very different solvency to 4 years ago because we do not rely on equivalents anymore."

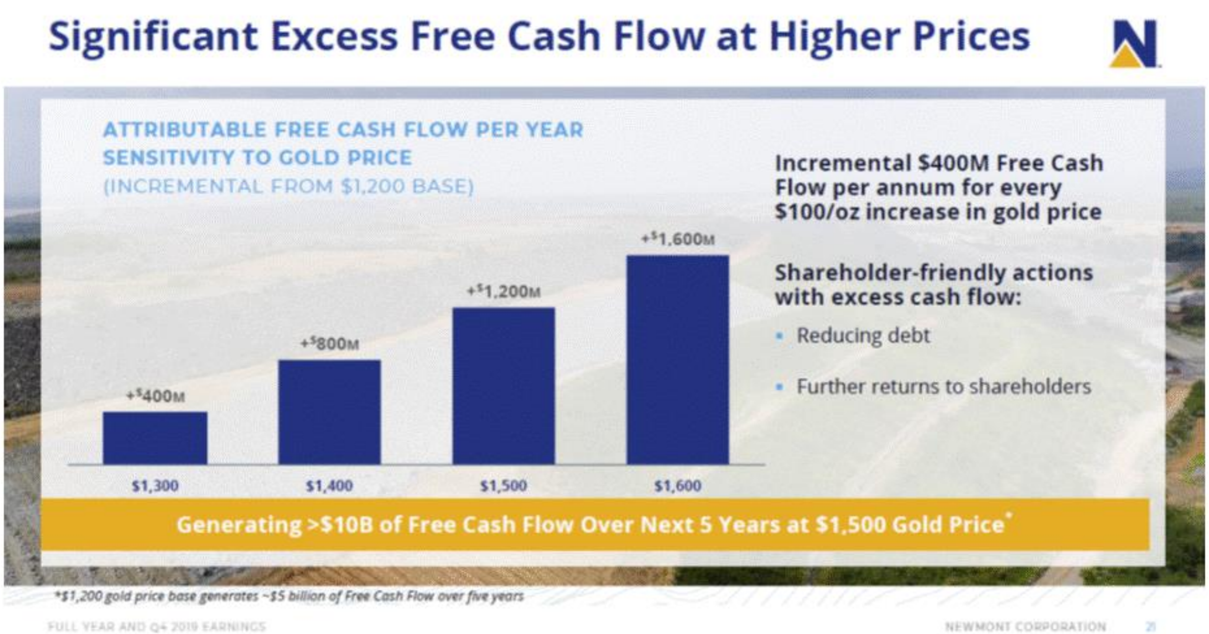
AXA shares have fallen 7% to date, after a stellar 2019 that saw the stock price rise nearly 40%. The company's $15.3 billion acquisition of insurer XL Group has hit a few bumps, with a disappointing outlook for 2020, and the company announced that Scott Gunter would take over as AXA XL's CEO. Mr. Gunter was previously the president of Chubb North America's Commercial Insurance division. With XL's reinsurance business integrated into AXA and co-selling in Europe, we think that there will still be benefits from diversification and a broader portfolio. Shares trade for less than 9 times earnings, with a robust net dividend yield of 4.7%. Our Target Price now resides at $38.

Shares of **Newmont Goldcorp** (NEM – $49.44) gained more than 4% last week after the giant precious metals miner posted adjusted Q4 EPS of $0.50, four cents ahead of analyst expectations, and the price of gold jumped to a seven-year high. CEO Tom Palmer commented, "In 2019, we continued to lead in environmental, social and governance stewardship by achieving our public targets and being recognized as the gold industry leader for our performance. Last year, we completed 2 historic transactions, creating the most balanced portfolio of long-life assets with the ability to generate robust free cash flow for decades to come. We produced 6.9 million gold equivalent ounces, including 6.3 million ounces of gold at all-in sustaining costs of $966 an ounce, in line with our full year guidance."

Mr. Palmer stated, "Our world-class assets are in the most balanced and favorable jurisdictions. We have the industry's largest gold reserves at 100 million ounces, with nearly 90% located in the Americas and Australia. This offers Newmont shareholders exposure to 124 gold reserve ounces per 1,000 shares. Our reserve base also provides significant exposure to copper, silver, zinc and lead, representing an additional 63 million gold equivalent ounces. Across our 12 operated mines and 2 nonoperated joint ventures, we have an average reserve life greater than 10 years, with mine lives at our largest assets: Boddington, Tanami, Penasquito and Ahafo extending well into the 2030s, underpinning the strongest and most sustainable portfolio in the industry. In addition, we'll generate $1.5 billion in revenue each year from producing between 1.2 million to 1.4 million gold equivalent ounces with silver, zinc and lead from Penasquito and copper from Boddington. Combined, we'll deliver nearly 8 million gold equivalent ounces per year, the most of any company in our industry. Over this time, we will maintain our capital discipline through investing approximately $1 billion of sustaining capital per year to cover infrastructure, equipment and ongoing mine development.”

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
NEM – Levered Exposure to Gold



NEM expects to mine 6.4 million ounces of gold in 2020, and between 6.2 million ounces and 6.7 million ounces per year through 2024, along with cost improvements along the way. Divestitures are expected to net the firm an additional $1.4 billion in Q1 2020 and the annual dividend is expected to increase 79% to $1.00 per share (a target that must be formally approved by the board and the final rate will be officially declared in April). The mining business must play the long game with its investment, while being uniquely susceptible to short-term commodity prices, but we think that the company’s strong financial position and solid portfolio give us plenty to like. We appreciate the hedge provided by our modest exposure to gold, especially given volatile geopolitical and economic conditions around the globe. That said, we do acknowledge the complexities and obstacles inherent in the mining industry, so we continue to monitor Newmont’s efforts to streamline operations and control costs as it integrates Goldcorp. Our Target Price for NEM has been boosted to $55.

Insurer and financial services firm **Allianz SE** (ALIZY – $24.92), which recently changed tickers from AZSEY, earned $0.49 per share in fiscal Q4 2019 (vs. $0.46 est.). AZSEY had revenue of $39.3 billion (vs. $37.9 billion est.). Shares gained 1% after the report, adding to the company’s 5% gain for the year, despite a negative 600 million euro hit from reserve strengthening in the AGCS (Allianz Global Corporate & Specialty) segment.

CEO Oliver Bate said, “This has been the fifth year of another record in operating profit, and we are at EUR 11.9 billion, 3%, you may say only up, but it’s quite something to continuously go up on that number. Revenues have crossed the EUR 140 billion line to EUR 142 billion, that’s 8% up. It means basically more than double the growth of the global economy. And shareholders’ income is up 6%, again, almost to a record level. 2007 was the highest. We are crossing that, too. And our earnings per share, up 8% to EUR 18.9… Overall Allianz is very much on track to make its 2021 ambition despite the noise we’ve had in the P&C segment, and we will probably talk about that. There’s lots of things going on in P&C to make sure that we improved the loss ratios, and everybody has hands on deck now.”

AZSEY expects operating income to be between $12.4 billion and $13.5 billion for fiscal 2020. The company also plans to raise the dividend. The annual payment is expected to be about 0.96 euros per share, which at present spot rates translates to $1.04 or a gross yield of 4.2%, though the net (after foreign tax) yield is more in the 3% range. Allianz has returned 25 billion euros to shareholders over the last five years and continues to make efforts to improve return on equity and earnings per share metrics. In addition, the company has a diversified global income stream (including bond manager PIMCO) and diligent management team, while we think that the high-quality shares are very inexpensive, trading for just under 12 times estimated earnings. Our Target Price has been inched up to $32.

Agricultural and farm machinery firm **Deere & Co.** (DE – $177.43) reported strong fiscal Q1 2020 financial results that came in ahead of consensus analyst estimates. The results and an overall upbeat earnings call led to DE shares rising 7% on Friday, despite the sizable drop in the U.S. equity market. For the quarter, Deere announced adjusted EPS of $2.14, versus expectations of $2.13, on sales of $8.70 billion (vs. $8.40 billion est.). Deere expects GAAP net income to come in between $2.7 billion and $3.1 billion for fiscal 2020, a drop from the $3.2 billion earned in 2019.

“John Deere’s first-quarter performance reflected early signs of stabilization in the U.S. farm sector,” said CEO John C. May. “Farmer confidence, though still subdued, has improved due in part to hopes for a relaxation of trade tensions and higher agricultural exports. At the same time, activity in the construction sector has slowed leading to lower sales and profit for our Construction & Forestry division. Also impacting results in Deere’s construction equipment business were our actions to reduce factory production and lower inventories in response to current market conditions. Additionally, the quarter included costs of a voluntary employee-separation program, which is among the steps Deere is taking to improve flexibility and efficiency.”

Mr. May added, “Looking ahead, we are particularly encouraged by the broad use of precision technologies and believe the company is well-positioned to strengthen its leadership in this vital area. In addition, we are proceeding with a series of measures to create a more focused organizational structure that can operate with greater speed and agility. These steps are leading to improved efficiencies and helping the company focus its resources and investments on areas that have the most impact on performance."

The coronavirus could make it difficult for China to buy the amount of U.S. agricultural products recently agreed to as part of the Phase 1 trade deal, at least in the near-term, and DE continues to face other operational headwinds. That said, we remain optimistic about the long-term potential of global agriculture in general as the decline of worldwide arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. Shares yield 1.7% and management has made significant share repurchases. Our Target Price for DE has plowed ahead to $195.