Market Commentary Monday, March 16, 2020

March 16, 2020

EXECUTIVE SUMMARY

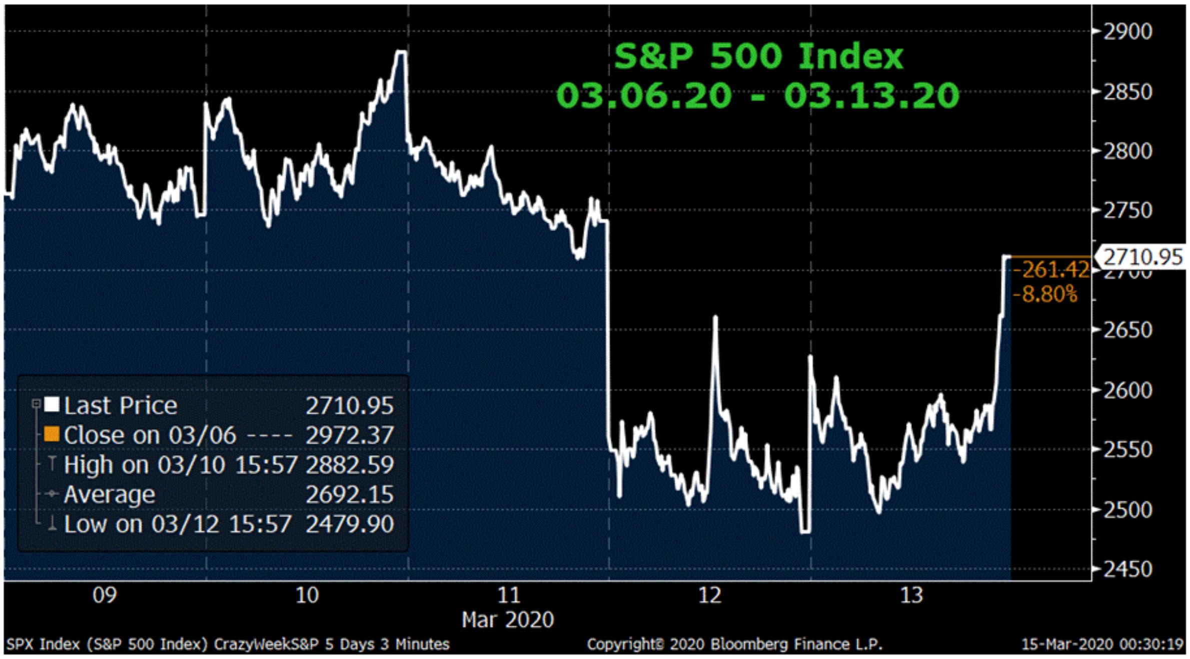
Week in Review – Stunning Swings…in all Asset Classes
Sentiment – Decidedly Negative
Bear Markets – Now 4 of Them Since the End of the Financial Crisis
COVID-19 – News Remains Dismal
Econ Outlook – Recession Now Much More Likely
Emergency Fed Meeting – FOMC Slashes Interest Rates to Zero; Buying $700 Billion of Bonds
Keeping the Faith – COVID-19 Will Pass and the Fed/Washington Have More Levers to Pull if Necessary
Target Prices – New Listing Coming this (Monday) Evening
Stock News – Updates on ORCL, JBL, AVGO & DSPGY

Market Review

There are not enough adjectives to describe trading in the financial markets last week as the S&P 500 had to skyrocket more than 9% on Friday just to cut its losses for the week to a little less than 9%.

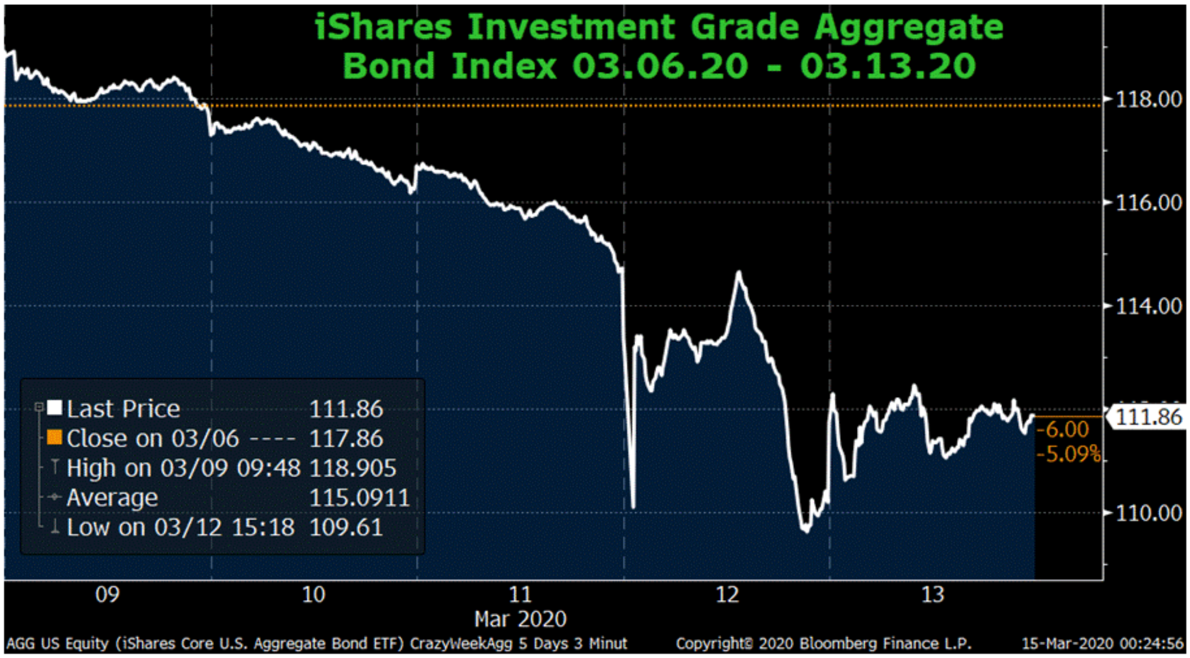
Crazy Week – U.S. Equities

Spectacular price moves were the norm in the equity markets last week, with each day seeing a closing change of at least 4%.



And, it was not just stocks that endured several bouts of panic selling, as corporate bonds cratered too,…

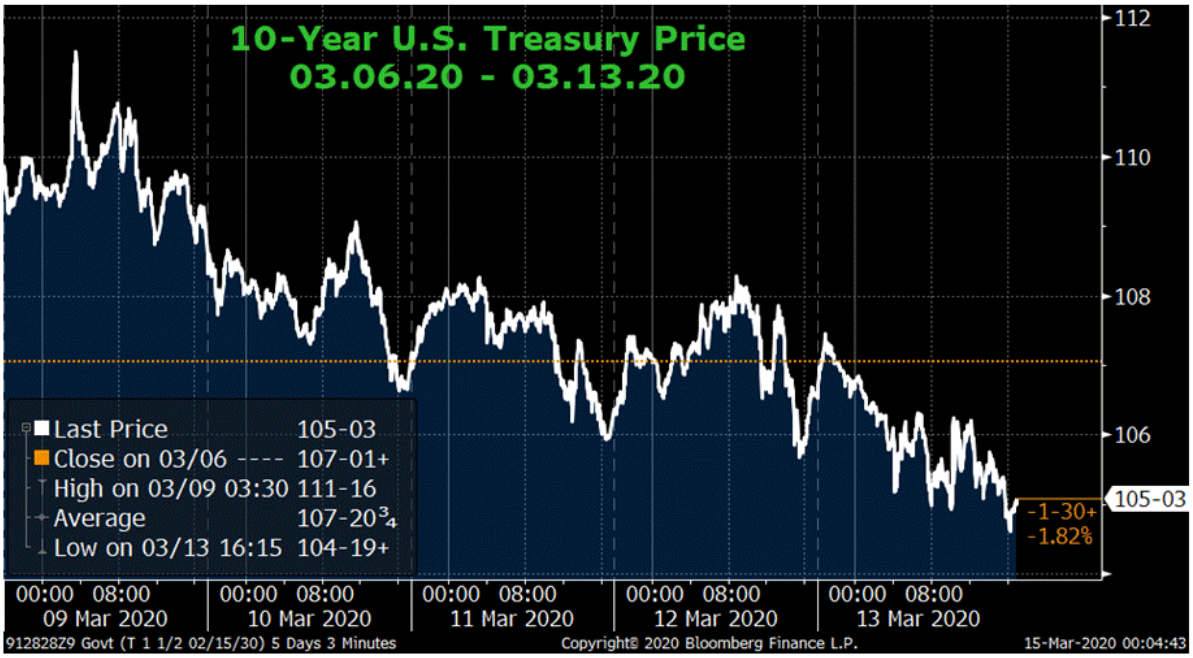
In an example of there being no safe haven last week, investment grade bonds plunged more than 5%.



…and investors found no comfort in U.S. Treasuries,…

THE PRUDENT SPECULATOR
Crazy Week – U.S. Treasuries

Incredibly, despite the panic selling of most financial assets, even 10-year U.S. Treasuries skidded, dropping 1.8%.



…while gold plunged as well.

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THE PRUDENT SPECULATOR
Crazy Week – Gold

With asset values plunging all over the world, it was incredible to see the price of gold, supposedly the ultimate safe haven, crater.

Not surprisingly, the incredible volatility did a number on the collective investor psyche, with the AAII Bull/Bear Sentiment Survey seeing its highest level of pessimism since 2013 and folks fleeing stock mutual funds at a pace not seen since the Financial Crisis,…

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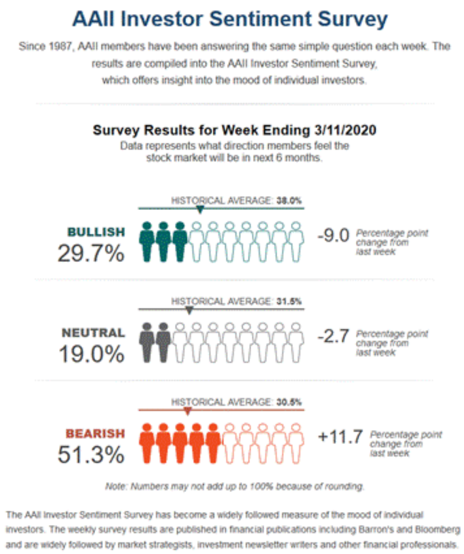
THE PRUDENT SPECULATOR
Sentiment: Very Pessimistic



March 12, 2020 The percentage of individual investors expecting stocks to fall over the short term is at its highest level in seven years. Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 9.0 percentage points to 29.7%.

Bearish sentiment, expectations that stock prices will fall over the next six months, soared 11.7 percentage points to 51.3%. Pessimism was last higher on April 11, 2013 (54.5%).

The latest Sentiment Survey of AAII members showed a jump in pessimism to 51.3%, the highest Bearishness level in seven years. Meanwhile, investors have been voting with their feet, heavily selling stocks and bonds in calcs of exchange traded and mutual fund flows.

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

Week Ended	3/4/2020	2/26/2020	2/19/2020	2/12/2020	2/5/2020
Total Equity	-20,214	-13,916	276	7,597	12,902
Domestic	-17,254	-13,536	-3,256	4,357	5,875
World	-2,960	-380	3,532	3,240	7,028
Hybrid	-6,464	-1,421	201	409	406
Total Bond	-17,762	3,198	14,888	19,113	13,672
Taxable	-17,244	204	12,245	15,859	10,683
Municipal	-518	2,993	2,643	3,253	2,989
Commodities	318	229	841	541	832
Total	-44,122	-11,912	16,207	27,659	27,813

Source: Investment Company Institute

…while the numbers in the chart above do not reflect Thursday's huge drop that pushed just about every U.S. stock index into Bear Market territory,…

2020 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
2/19/2020	3/12/2020	-33.54%	Russell 3000 Average Stock	2/19/2020	3/12/2020	-25.35%	NASDAQ Composite Average Stock
2/12/2020	3/12/2020	-28.46%	Dow Jones Industrial Average	2/19/2020	3/13/2020	-28.45%	S&P 500 Pure Growth Index
2/19/2020	3/12/2020	-26.87%	NASDAQ Composite Index	1/17/2020	3/12/2020	-42.58%	S&P 500 Pure Value Index
2/19/2020	3/12/2020	-27.42%	Russell 1000 Index	2/19/2020	3/12/2020	-25.52%	S&P 500 Communication Services
1/17/2020	3/13/2020	-35.32%	Russell 2000 Index	2/19/2020	3/13/2020	-27.46%	S&P 500 Consumer Discretionary
2/19/2020	3/12/2020	-27.83%	Russell 3000 Index	2/18/2020	3/12/2020	-19.57%	S&P 500 Consumer Staples Secto
2/19/2020	3/12/2020	-26.95%	S&P 500 Index	4/23/2019	3/13/2020	-57.59%	S&P 500 Energy Sector GICS Lev
2/19/2020	3/12/2020	-25.54%	Russell 1000 Growth Index	2/12/2020	3/12/2020	-35.25%	S&P 500 Financials Sector GICS
2/12/2020	3/12/2020	-29.86%	Russell 1000 Value Index	1/22/2020	3/12/2020	-24.47%	S&P 500 Health Care Sector GIC
2/19/2020	3/13/2020	-34.11%	Russell 2000 Growth Index	2/12/2020	3/12/2020	-26.49%	S&P 500 Industrials Sector GIC
1/17/2020	3/13/2020	-37.29%	Russell 2000 Value Index	2/19/2020	3/12/2020	-18.14%	S&P 500 Information Technology
2/19/2020	3/12/2020	-26.00%	Russell 3000 Growth Index	1/2/2020	3/13/2020	-30.50%	S&P 500 Materials Sector GICS
1/17/2020	3/12/2020	-30.27%	Russell 3000 Value Index	2/21/2020	3/12/2020	-16.18%	S&P 500 Real Estate Sector GIC
2/19/2020	3/12/2020	-25.81%	S&P 500 Growth Index	2/18/2020	3/12/2020	-19.27%	S&P 500 Utilities Sector GICS
2/12/2020	3/12/2020	-28.69%	S&P 500 Value Index				

…with the setback in the S&P 500 finally crossing the 20% level on a closing basis.

THE PRUDENT SPECULATOR

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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%	110.5%	936	26	3.5	3/9/2009	2/19/2020
17.5%	67.0%	581	38	2.4	12/24/2018	2/19/2020
15.0%	66.7%	564	44	2.1	12/24/2018	2/19/2020
12.5%	44.1%	336	71	1.3	12/24/2018	2/14/2020
10.0%	34.6%	245	97	0.9	12/24/2018	2/19/2020
7.5%	23.4%	148	155	0.6	3/12/2020	3/13/2020
5.0%	14.7%	73	301	0.3	3/12/2020	3/13/2020

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.0%	357	26	3.5	2/19/2020	3/12/2020
-17.5%	-30.2%	217	38	2.4	2/19/2020	3/12/2020
-15.0%	-28.2%	189	44	2.1	2/19/2020	3/12/2020
-12.5%	-22.7%	138	71	1.3	2/19/2020	3/12/2020
-10.0%	-19.6%	102	97	0.9	2/19/2020	3/12/2020
-7.5%	-15.5%	65	154	0.6	2/19/2020	3/12/2020
-5.0%	-10.9%	37	300	0.4	2/19/2020	3/12/2020

From 02.20.28 through 03.13.20. 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	8.8%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.3%
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

We say finally in that the newspaper headlines were quick to mark the end to the supposed 11-year Bull Market, even as we had a Bear Market in 2018,…

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Market of Stocks — 2018 Bear Market

2018 Bear Market							
Start	End	Perf	Instrument	Start	End	Perf	Instrument
9/20/2018	12/24/2018	-24.58%	Russell 3000 Average Stock	8/28/2018	12/24/2018	-24.64%	NASDAQ Composite Average Stock
10/3/2018	12/26/2018	-19.44%	Dow Jones Industrial Average	8/29/2018	12/24/2018	-23.28%	S&P 500 Pure Growth Index
8/30/2018	12/24/2018	-23.89%	NASDAQ Composite Index	1/24/2018	12/26/2018	-25.36%	S&P 500 Pure Value Index
9/21/2018	12/26/2018	-20.46%	Russell 1000 Index	2/1/2018	12/24/2018	-22.90%	S&P 500 Communication Services
8/31/2018	12/24/2018	-27.28%	Russell 2000 Index	10/1/2018	12/24/2018	-23.88%	S&P 500 Consumer Discretionary
9/21/2018	12/26/2018	-20.91%	Russell 3000 Index	1/29/2018	12/26/2018	-18.22%	S&P 500 Consumer Staples Secto
9/21/2018	12/26/2018	-20.21%	S&P 500 Index	5/22/2018	12/26/2018	-32.25%	S&P 500 Energy Sector GICS Lev
10/1/2018	12/24/2018	-22.64%	Russell 1000 Growth Index	1/29/2018	12/26/2018	-27.13%	S&P 500 Financials Sector GICS
1/26/2018	12/26/2018	-20.64%	Russell 1000 Value Index	10/1/2018	12/24/2018	-16.90%	S&P 500 Health Care Sector GIC
8/31/2018	12/24/2018	-29.11%	Russell 2000 Growth Index	1/29/2018	12/26/2018	-25.86%	S&P 500 Industrials Sector GIC
8/27/2018	12/26/2018	-25.99%	Russell 2000 Value Index	10/3/2018	12/24/2018	-24.50%	S&P 500 Information Technology
10/1/2018	12/24/2018	-23.02%	Russell 3000 Growth Index	1/26/2018	12/26/2018	-26.58%	S&P 500 Materials Sector GICS
1/26/2018	12/26/2018	-20.69%	Russell 3000 Value Index	12/6/2018	12/24/2018	-12.83%	S&P 500 Real Estate Sector GIC
10/1/2018	12/24/2018	-21.34%	S&P 500 Growth Index	12/13/2018	12/24/2018	-9.20%	S&P 500 Utilities Sector GICS
1/26/2018	12/26/2018	-21.63%	S&P 500 Value Index				

…while the 2015-2016 period saw the average stock (and more than a few indexes) pierce the 20%-down threshold,…

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THE PRUDENT SPECULATOR
Market of Stocks — 2016 Bear Market

2016 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
6/23/2015	2/11/2016	-23.6%	Russell 3000 Average Stock	7/20/2015	2/11/2016	-23.7%	NASDAQ Composite Average Stock
12/18/2014	1/25/2016	-18.4%	Berkshire Hathaway	11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
8/29/2014	2/11/2016	-21.2%	Buckingham Portfolio	6/23/2014	1/20/2016	-47.3%	S&P 500 Energy
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average	7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF	11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF	7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.	5/21/2015	2/11/2016	-14.2%	S&P 500 Index
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index	2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index	12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index	2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index	3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index	2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index	4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index	1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index	5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index	6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index	6/23/2015	2/11/2016	-17.1%	Wilshire 5000

…with 2011 perhaps the scariest of the three Bear Markets, before the latest, since the end of the Financial Crisis.

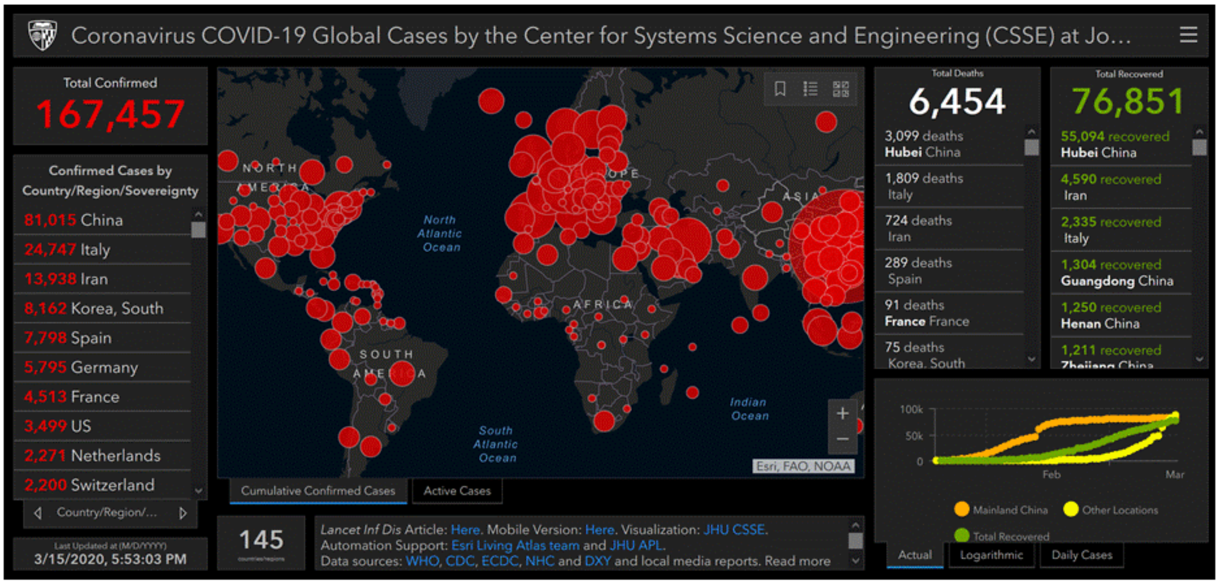
2011 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
4/29/2011	10/3/2011	-26.6%	Russell 3000 Average Stock	4/29/2011	10/3/2011	-28.8%	NASDAQ Composite Average Stock
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway	7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average	4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF	2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF	7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.	5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index	4/29/2011	10/3/2011	-19.4%	S&P 500 Index
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index	4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index	2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index	4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index	7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index	4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index	5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index	5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index	4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index	4/29/2011	10/3/2011	-20.9%	Wilshire 5000

To be sure, the volatility we are seeing of late is unprecedented, and the new trading week appears set to start with another big drop as the news on the coronavirus front remains discouraging, to say the least,…

THE PRUDENT SPECULATOR
COVID-19's Global Spread

Sadly, per Johns Hopkins, the total Coronavirus Covid-19 confirmed cases and deaths continue to rise around the world, but so, too, do the total recoveries, while South Korea's mortality rate remains below 1%.

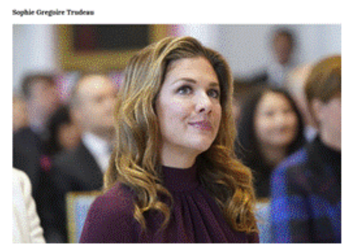


https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

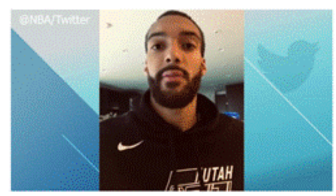
…with little media attention focused on the vast majority of folks who recover, though we have hopes that will start to change.

THE PRUDENT SPECULATOR
The Hanx, Miami Mayor, Sophie, Gobert

No doubt, word that Tom Hanks and Rita Wilson had tested positive amped already heightened anxieties but seeing more news about those with modest symptoms and those who recover should provide some much-needed perspective in the face of the constant stream of negative headlines.



Rudy Gobert urges people to 'stay safe' in video

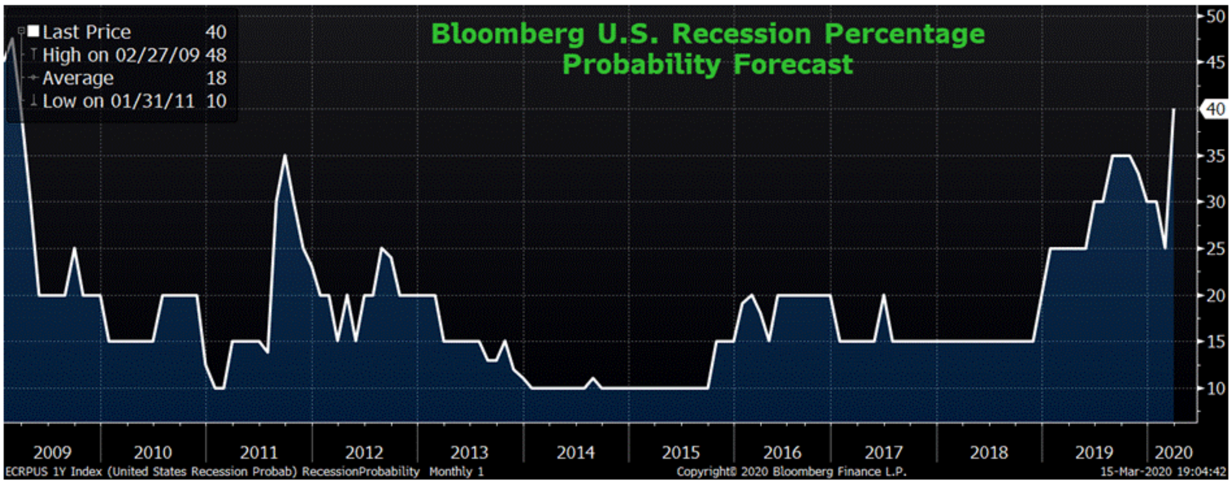


No doubt, the COVID-19 narrative will dominate the headlines, and it is difficult to think that the news will improve in the near-term, but we know very well that the equity market is an anticipatory mechanism, with events, both good and bad, priced in very quickly, and the huge declines in the price of many stocks discounting more than a few quarters of abysmal operating results.

While it would seem that the odds of recession are now much higher than Bloomberg's current 40% level,…

THE PRUDENT SPECULATOR
Recession Probability: Now at 40%

With it clear that domestic and global economic growth will be hit extremely hard by COVID-19, the probability of recession in the U.S. has jumped to 40%. That odds are now at highs last seen in the spring of 2009…which proved to be a fantastic time to buy equities, as that time frame marked the Financial Crisis Bear Market bottom.



…Washington and the Federal Reserve are seemingly doing all that they can to support the economy, with Jerome Powell & Co. on Sunday afternoon slashing the Federal Funds rate to a range of zero to 0.25% and announcing plans to buy $700 billion of U.S. Treasuries and agency mortgage-backed securities, on top of the $1.5 trillion of extra short-term funding for the banking system offered on Friday.

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THE PRUDENT SPECULATOR
FOMC Statement: 3.15.20

The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. Global financial conditions have also been significantly affected. Available economic data show that the U.S. economy came into this challenging period on a strong footing. Information received since the Federal Open Market Committee met in January indicates that the labor market remained strong through February and economic activity rose at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending rose at a moderate pace, business fixed investment and exports remained weak. More recently, the energy sector has come under stress. On a 12 month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation have declined; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook. In light of these developments, the Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. This action will help support economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2 percent objective.

The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

The Federal Reserve is prepared to use its full range of tools to support the flow of credit to households and businesses and thereby promote its maximum employment and price stability goals. To support the smooth functioning of markets for Treasury securities and agency mortgage-backed securities that are central to the flow of credit to households and businesses, over coming months the Committee will increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion. The Committee will also reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. In addition, the Open Market Desk has recently expanded its overnight and term repurchase agreement operations. The Committee will continue to closely monitor market conditions and is prepared to adjust its plans as appropriate.

As always, we are braced for a roller-coaster ride, though we expect this one to be as wild as any we have ever seen. We did like what Treasury Secretary Steven Mnuchin said on Sunday, indicating that Washington was hardly out of ammunition, “I think we’re in the second of nine innings and we will use whatever tools we need to make sure the economy and hardworking Americans will get through this.” We also took some comfort in Chair Powell’s comments on Sunday, “We will maintain the rate at this level until we’re confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals. That’s the test…some things have to happen before we consider…we’re going to be watching, and willing to be patient, certainly,”

The road ahead will be bumpy, but as we are always working with a long-term multi-year time horizon, we continue to stay the course with our broadly diversified portfolios of what we believe to be undervalued stocks, usually of dividend payers. We are not ready to go where top White House economic advisor Larry Kudlow went today in saying, “I think by the end of this year, we will be back to a strong economy,” but we will get through COVID-19.

Stock Updates

While it is impossible to know what the near-term will bring, we have made significant changes to our Target Prices, a listing of which will be posted to theprudentspeculator.com this (Monday) evening.

To be sure, company-specific news is very much overshadowed by market, economic and health-related headlines, but Jason Clark, Chris Quigley and Zach Tart take a look at four of our companies that posted quarterly results last week. 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/.

System software firm **Oracle** (ORCL – $47.93) reported fiscal Q3 2020 earnings per share of $0.97 versus the $0.96 estimate, up 11.5% year-over-year. Revenue was in line with expectations at $9.8 billion. The Street was apparently pleased with the results as shares rebounded by more than 20% on Friday, closing well ahead of the overall market for the full, volatile week of trading.

The subscription business grew to a larger percentage of revenue, representing 71% versus 69% in the same period a year ago. Co-CEO Safra Catz expects subscription revenue to grow between 3% to 5% in fiscal Q4 on a constant currency basis, and total revenue to grow between negative 2% to positive 2%. She expects adjusted EPS to grow between 3% to 9% to a range of $1.20 to $1.28. Due to much of the company's revenue and earnings being contractual in nature, Ms. Catz expects little impact due to COVID-19 in the current quarter.

Oracle Founder Larry Ellison concluded with the same message from last quarter, "There are 2 key product areas that will determine Oracle's future, cloud ERP applications and Autonomous Database infrastructure. Being #1 in both of these 2 giant market segments will enable the success of our other application and infrastructure products in adjacent market segments."

ORCL repurchased 73.5 million shares for a total of $4 billion throughout the quarter, bringing purchases over the last 12 months to 366 million shares for a total of $20 billion and reducing the total share count by 28% over the past 5 years. And, in a big surprise, given all that is going on in the world, the Board of Directors increased the company's buyback program by an additional $15 billion, bringing the total amount authorized for repurchase to $30 billion.

We remain encouraged by recent successes and we believe that ORCL still has the right leadership team in place as the business adapts to a dynamic cloud business. We have been pleased with ORCL's execution, after a difficult initial transition to the subscription model, and think that despite the fierce cloud competition, there is plenty of room for more than one firm to be successful. We believe that ORCL's relentless pursuit of the #1 spot in any competition is a key differentiator and has contributed to the company's overall success. We think that ORCL shares remain attractive, trading for 12 times forward earnings and currently yielding 2.0%. Our Target Price is now $63.

Electronic manufacturing services firm **Jabil Inc.** (JBL – $24.83) released fiscal Q2 2020 results Friday morning before market open that missed analyst estimates (EPS of $0.50 vs. $0.64 est.). The company suffered from inflated costs associated with labor, supplies and supply chain inefficiencies due to the disruptive impact of COVID-19. Although JBL shares actually closed in the green Friday, they are off by more than 40% since mid-January as the business faced significantly reduced capacity throughout the month of February as the Chinese New Year extended out to 10-14 days and as quarantine protocols were in effect.

CFO Michael Dastoor detailed, "We began Q2 with a stronger-than-anticipated start to the fiscal quarter. As we moved into February, demand held, but our ability to meet demand was greatly diminished as virus containment efforts ramped in China. During the quarter, we incurred approximately $53 million in direct costs associated with the COVID-19 outbreak. I'd now like to provide you with the makeup of these costs. First, we incurred additional labor costs in Q2. During February, we strategically made the decision to compensate our employees who are restricted and quarantined. These factors contributed to higher labor costs than we expected going into the quarter. Second, our factory utilization in China was negatively impacted in February due to travel disruptions and restrictions. To add further context to the higher labor costs and lower utilization, February began with the Chinese New Year holiday being extended by 10 to 14 days depending on location. Most of our larger sites in China began to come back online later than anticipated. And by February 14, we were only operating at 45% to 50% capacity. We exited the quarter at approximately 80% utilization in China. Third, during the quarter, we also incurred lost revenue associated with both upstream and downstream supply chain disruptions, which impacted our worldwide footprint. And finally, in an effort to keep our employee base safe and healthy, we incurred unanticipated costs to procure necessary supplies to keep our people safe, items, such as face masks, hand sanitizers, thermometers and personal protection equipment. I would like to highlight that February was an anomaly. Under normal circumstances, if demand diminished, our variable costs would have been materially lower as we would have adjusted our costs to the demand environment."

Given elevated uncertainty and the fluidity of ongoing events, management elected not to provide guidance for Q3.

Despite the obstacles presented by COVID-19, our confidence in Jabil's ability to execute its business plan remains. And, although demand in the current environment remains challenged, the firm is positioned to benefit from intermediate to long-term tailwinds in Cloud, 5G and the electrification of automobiles. The company's demonstration of strong performance across a diversified business platform, reasonable valuation (7 times forward EPS) and generous capital return program are positives, but we have trimmed our Target Price to $49.

Shares of **Broadcom** (AVGO – $234.22) have been battered this year amid the virus-related fall out, and the company's fiscal Q1 2020 results released on March 12 did the company no favors. AVGO earned an adjusted $5.25 per share on revenue of $5.9 billion, versus estimates of $5.34 and $6.0 billion, respectively.

CEO Hock Tan said, "Our infrastructure software segment performed largely as expected. Brocade recovered from the bottom of 2019 and continue to stabilize very well. CA had a record quarter under Broadcom delivering approximately $880 million of revenue or a 5% growth year-over-year. Let me turn to our current thinking on the full year. I'll begin by putting into context how we initially came to our prior full year 2020 guidance. It was based on 2 primary drivers. On the infrastructure software side, we added Symantec, which, in the first year, we expect to do $1.8 billion. Combined with Brocade, which is on its way back to a normalized run rate, and CA, which is growing, we felt good about $7 billion from the software segment in 2020. In semiconductors. 2018 was a strong year, up high single digits. However, with softening demand industry-wide, 2019 became challenging and was down high single digits, bottoming out in the second half of the year. So when we gave our 2020 guidance last quarter, it reflected a projected recovery from that bottom. We expected the recovery would be more gradual in the first half of 2020, which we have been seeing and then accelerate in the second half of 2020. Our confidence in that acceleration was driven by the anticipated launch of 5G phones late in the year and expected strong data center spending from enterprise and hyper cloud customers."

Mr. Tan gave an updated on the potential impact from COVID-19, "As I sit here today, I have not yet seen a meaningful impact on bookings, and certainly, the fundamentals of the business remain very much intact. However, there is no doubt COVID-19 has created a high level of uncertainty, which we can help but think is going to have an impact on our semiconductor business, in particular, in the second half of the fiscal year. But frankly, visibility is bad, and confidence continue to erode. So as a result, we believe it is only prudent that we withdraw our annual guidance until such time that visibility returns to pre-COVID-19 levels. Keep in mind, through all this cyclicality and uncertainty, given the high degree of recurring revenue based on multiyear contracts, any uncertainty around infrastructure software revenue is likely to be very much more muted. Also, in light of the unique environment we are in, we thought it makes sense at this time to provide more color on near-term expectations, which we have better visibility. We expect our second quarter revenue to be $5.7 billion, which reflects a typical sequential drop, slight drop in wireless seasonality. Importantly, on a year-on-year basis, we expect our semiconductor business this Q2 overall to be virtually flat from a year ago, this after year-on-year reduction over the last 4 quarters."

We are fans of AVGO's history of strong execution and reasonable valuation metrics, including an even-less-expensive forward P/E around 11 and free cash flow yield above 10%. Shares sport a very generous dividend yield of 5.7%. Still, our Target Price has been trimmed to $400.

German letter and parcel carrier **Deutsche Post AG** (DPSGY – $25.27) posted adjusted earnings per share of $0.88, versus the $0.83 estimate, in fiscal Q4 2019. DPSGY had total revenue of $18.8 billion, versus the $19.3 billion estimate. Shares rose 10.5% the day after the announcement, but we think that was largely a result of broader market movements than a reward for Deutsche Post's earnings.

CFO Melanie Kreis commented on COVID-19, "Obviously, we are seeing the impact of [COVID-19] in February and so far on our Express and Forwarding divisions. What we now, with the books for February being closed, saw was that we were more at the positive end of the EUR 60 million to EUR 70 million range we had given you. So there was obviously an impact, but it was at the better end of the range we had given before. And what we're also very clearly now seeing in the early days of March is that China is on a path to normalization. We see that clearly in our Express volumes but get also increasingly encouraging messages from the forwarders. And in the first week of March, for the Express business, we were actually back in positive growth territory. So obviously, in February, there was a decline in shipment. But now in the early days of March, we were back in positive growth territory, and we are beginning to put planes back on — into the network."

In dollar terms, DPSGY expects adjusted EBIT above $5.66 billion for fiscal 2020, with free cash flow above $1.6 billion, which includes $570 million worth of Express segment intercontinental fleet renewal costs. 2022 EBIT is expected to come in north of $6 billion.

DPSGY shares have been walloped this year, along with the rest of the air freight carriers. While the outbreak in Europe continues, we think that life will eventually return to normal and folks will resume usual commerce. Certainly, macroeconomic weakness can have an effect on shipments and mail, but COVID-19 cannot live for long periods of time, so freight travel should see little delay in comparison to human travel. The shares now sport a net trailing yield of 5% and trade for less 10 times estimated earnings and for less than 50% of projected sales, while offering our broadly diversified portfolios unique European exposure. Our Target Price for DPSGY is now $53.