Market Commentary March 23, 2020

March 22, 2020

EXECUTIVE SUMMARY

Newsletter Trades – Energy Sector Moves
Awful 5 Days – Second Worst Week in Dow History
Bear Markets – #7 Since the Launch of *TPS*
COVID-19 – Brutal Human and Economic Toll
Stay Home – America Will Have to Get Back to Work Sooner, Rather than Later
Mortality Stats – Death is Part of Life
Bill Ackman vs. Bill Miller – Both, we Think, are Right
Behavioral Economics – Words of Wisdom from Jason Zweig
Stock News – Updates on WSM, MAN, CMI, DBI, BHE, FDX, DAL and CCL

Market Review

A little housekeeping…as discussed on our *Sales Alert* this past Monday, we sold on Wednesday 850 **National Oilwell Varco** (NOV – $10.19) for TPS Portfolio at $9.2842 and 407 **Royal Dutch Shell** (RDS.A – $25.08) at $22.8843, while for Buckingham Portfolio, we sold 124 RDS.A at $22.8843, 217 **Halliburton** (HAL – $5.05) at $5.1774 and 105 **Schlumberger** (SLB – $14.28) at $13.3457. We will use those prices for the closing out of those stocks in our hypothetical Millennium Portfolio and PruFolio. We also bought the following for TPS Portfolio: 265 **Comerica** (CMA – $28.93) at $29.62 and 270 **Exxon Mobil** (XOM – $32.74) at $33.54. For Buckingham Portfolio, we bought 85 CMA at $29.62 and 77 XOM at $33.54.

If we didn't have enough adjectives to describe the week prior's trading, there must be no words to describe the terrible equity market week just completed, as the massive 4000-point drop in the Dow Jones Industrial Average was second to only one other over the last nine decades,…

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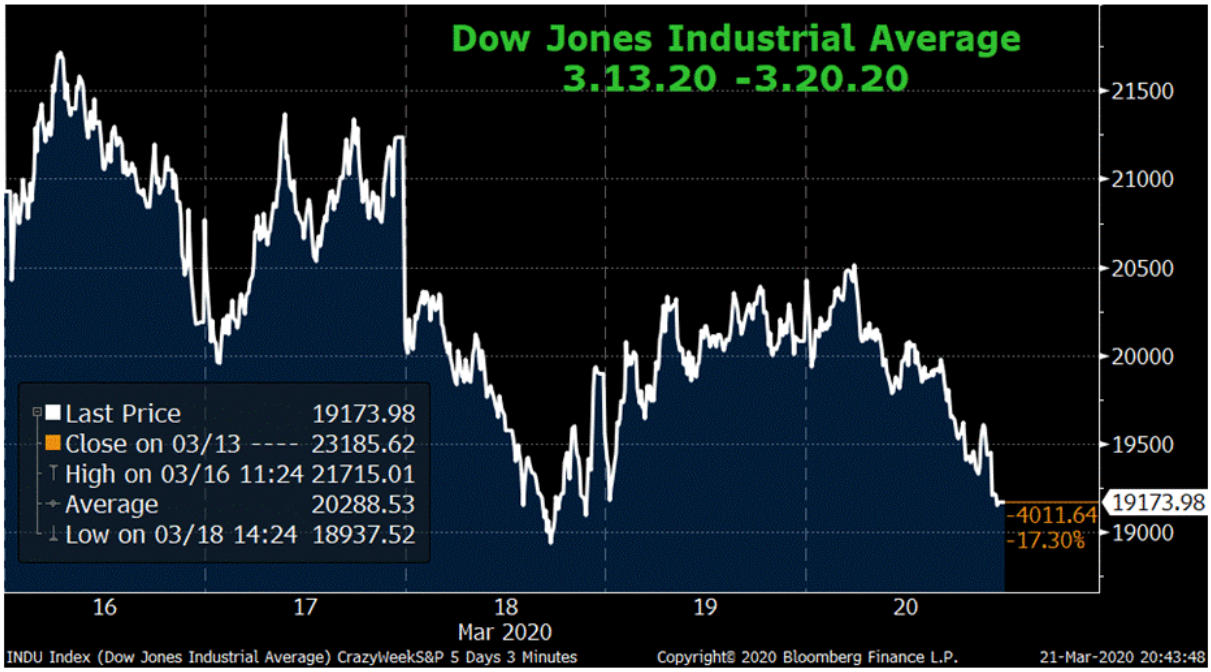
THE PRUDENT SPECULATOR
Horrendous Week – U.S. Equities

Trailing only the 18.15% plunge for the week ended 10.10.08, the Dow Jones Industrial Average suffered its second-worst 5-day drop in history.



…while the losses posted by the average stock and every market gauge over the last month have been staggering.

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THE PRUDENT SPECULATOR
Market of Stocks — 2020 Bear Market

2020 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
2/19/2020	3/12/2020	-39.30%	Russell 3000 Average Stock	2/19/2020	3/12/2020	-35.82%	NASDAQ Composite Average Stoc
2/12/2020	3/18/2020	-36.02%	Dow Jones Industrial Average	2/19/2020	3/18/2020	-38.11%	S&P 500 Pure Growth Index
2/19/2020	3/18/2020	-32.04%	NASDAQ Composite Index	1/17/2020	3/18/2020	-50.54%	S&P 500 Pure Value Index
2/19/2020	3/18/2020	-33.97%	Russell 1000 Index	2/19/2020	3/18/2020	-30.86%	S&P 500 Communication Services
1/17/2020	3/18/2020	-43.66%	Russell 2000 Index	2/19/2020	3/18/2020	-36.94%	S&P 500 Consumer Discretionary
2/19/2020	3/18/2020	-34.55%	Russell 3000 Index	2/18/2020	3/20/2020	-23.14%	S&P 500 Consumer Staples Secto
2/19/2020	3/18/2020	-32.80%	S&P 500 Index	4/23/2019	3/18/2020	-66.11%	S&P 500 Energy Sector GICS Lev
2/19/2020	3/18/2020	-31.93%	Russell 1000 Growth Index	2/12/2020	3/19/2020	-42.44%	S&P 500 Financials Sector GICS
2/12/2020	3/18/2020	-36.54%	Russell 1000 Value Index	1/22/2020	3/12/2020	-24.47%	S&P 500 Health Care Sector GIC
2/19/2020	3/18/2020	-42.64%	Russell 2000 Growth Index	2/12/2020	3/18/2020	-40.00%	S&P 500 Industrials Sector GIC
1/17/2020	3/19/2020	-46.00%	Russell 2000 Value Index	2/19/2020	3/12/2020	-30.62%	S&P 500 Information Technology
2/19/2020	3/18/2020	-32.59%	Russell 3000 Growth Index	1/2/2020	3/18/2020	-38.12%	S&P 500 Materials Sector GICS
1/17/2020	3/18/2020	-37.05%	Russell 3000 Value Index	2/21/2020	3/12/2020	-35.45%	S&P 500 Real Estate Sector GIC
2/19/2020	3/18/2020	-31.51%	S&P 500 Growth Index	2/18/2020	3/12/2020	-33.14%	S&P 500 Utilities Sector GICS
2/12/2020	3/20/2020	-34.90%	S&P 500 Value Index				

True, we never lose sight of the Warren Buffet quotation, “Unless you can watch your stock holding decline by 50 percent without becoming panic-stricken, you should not be in the stock market,” and we know that Bear Markets are not an unusual part of the investment process.

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

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.3%	1008	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%	-35.4%	286	26	3.5	2/19/2020	3/20/2020
-17.5%	-30.3%	217	38	2.4	2/19/2020	3/20/2020
-15.0%	-28.3%	189	44	2.1	2/19/2020	3/20/2020
-12.5%	-22.8%	138	71	1.3	2/19/2020	3/20/2020
-10.0%	-19.6%	102	97	0.9	2/19/2020	3/20/2020
-7.5%	-15.5%	65	155	0.6	3/13/2020	3/20/2020
-5.0%	-11.0%	37	301	0.4	3/13/2020	3/20/2020

From 02.20.28 through 03.20.20. 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

Indeed, we are now in Bear Market #26 over the last 90+ years, and though the speed of this selloff has been unparalleled, the magnitude of the decline (at least for the S&P 500) at present is a bit less than average.

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THE PRUDENT SPECULATOR
Bear Markets Every 3.5 Years on Average

S&P 500 Moves (on a Closing Basis) of 20% Without a Comparable Move in the Opposite Direction

9/16/1929	11/13/1929	-44.57%	BEAR	2/20/1928	9/16/1929	87.97%	BULL
4/10/1930	12/16/1930	-44.29%	BEAR	11/13/1929	4/10/1930	46.77%	BULL
2/24/1931	6/2/1931	-32.86%	BEAR	12/16/1930	2/24/1931	25.83%	BULL
6/26/1931	10/5/1931	-42.54%	BEAR	6/2/1931	6/26/1931	25.82%	BULL
11/9/1931	6/1/1932	-61.81%	BEAR	10/5/1931	11/9/1931	30.61%	BULL
9/7/1932	2/27/1933	-40.60%	BEAR	6/1/1932	9/7/1932	111.59%	BULL
7/18/1933	10/19/1933	-29.43%	BEAR	2/27/1933	7/18/1933	120.61%	BULL
2/6/1934	3/14/1935	-31.81%	BEAR	10/19/1933	2/6/1934	37.28%	BULL
3/10/1937	3/31/1938	-54.47%	BEAR	3/14/1935	3/10/1937	131.64%	BULL
11/9/1938	4/11/1939	-24.44%	BEAR	3/31/1938	11/9/1938	62.24%	BULL
10/25/1939	6/10/1940	-31.95%	BEAR	4/11/1939	10/25/1939	26.78%	BULL
11/7/1940	4/28/1942	-34.42%	BEAR	6/10/1940	11/7/1940	26.70%	BULL
5/29/1946	5/19/1947	-28.47%	BEAR	4/28/1942	5/29/1946	157.70%	BULL
6/15/1948	6/13/1949	-20.57%	BEAR	5/19/1947	6/15/1948	23.89%	BULL
8/2/1956	10/22/1957	-21.63%	BEAR	6/13/1949	8/2/1956	267.08%	BULL
12/12/1961	6/26/1962	-27.97%	BEAR	10/22/1957	12/12/1961	86.35%	BULL
2/9/1966	10/7/1966	-22.18%	BEAR	6/26/1962	2/9/1966	79.78%	BULL
11/29/1968	5/26/1970	-36.06%	BEAR	10/7/1966	11/29/1968	48.05%	BULL
1/11/1973	10/3/1974	-48.20%	BEAR	5/26/1970	1/11/1973	73.53%	BULL
11/28/1980	8/12/1982	-27.11%	BEAR	10/3/1974	11/28/1980	125.63%	BULL
8/25/1987	12/4/1987	-33.51%	BEAR	8/12/1982	8/25/1987	228.81%	BULL
3/24/2000	9/21/2001	-36.77%	BEAR	12/4/1987	3/24/2000	582.15%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
10/9/2007	11/20/2008	-51.93%	BEAR	7/23/2002	10/9/2007	93.21%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
2/19/2020	3/20/2020	-31.93%	BEAR	3/9/2009	2/19/2020	400.52%	BULL
	Average Drop	-35.35%	BEAR		Average Increase	113.31%	BULL

While we are now suffering through Bear Market #7 since the launch of *The Prudent Speculator* in 1977, the magnitude of the decline thus far is on par with the plunges following the Crash of '87 and the aftermath of the bursting of the Tech Bubble, and we persevered through far worse during the Great Financial Crisis just a dozen years or so ago.

And, with the equity futures for Monday's trading limit down as we pen these comments, it is difficult to expect the news to get better in the near-term. No doubt, the rising COVID-19 case and death count, with a steady stream of stories about this political leader or that celebrity testing positive, doesn't help matters, especially as the press doesn't have a lot of interest in showing that the vast majority of people who test positive for the virus recover, with only Tom Hanks and Rita Wilson (https://www.cnn.com/2020/03/22/entertainment/rita-wilson-rapping-coronavirus-trnd/index.html) seeming to make headlines, and scant interest in someone like the Mayor of Miami, who needed two Tylenol total for his so-far 9 days in self-quarantine.

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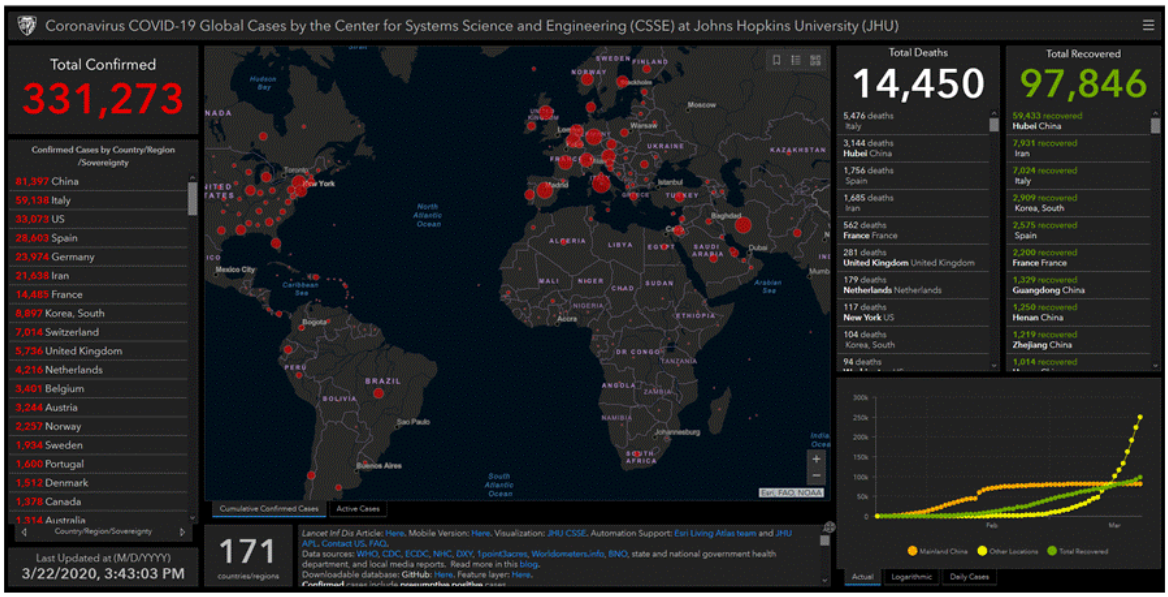
THE PRUDENT SPECULATOR
COVID-19's Global Spread

Sadly, per Johns Hopkins, the total Covid-19 confirmed cases and deaths continue to rise around the world, but so, too, do the total recoveries, while countless other untested folks have either no or mild symptoms.



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

Given that we are focused on the long-term equity market prospects, as we are always dealing with a three-to-five-year-or-longer time horizon, we are continuing to stay the course, just as we did after the Crash of '87, the Meltdown of '90, the Asian Financial Crisis in '97 and '98, 9/11, the Great Financial Crisis and the Downgrading of the U.S. Credit Rating in '11.

To be sure, this time is different, but so too were all those periods. The game is changing by the minute, and our leaders don't exactly look to have their act together, but such is the case during all crises. That said, we have had a massive and quick response from the Federal Reserve in terms of lowering interest rates and shoring up the financial system. And, despite the usual political wrangling, we expect a gargantuan stimulus package to be passed on Capitol Hill over the next few days, given the potential for enormous job losses and the tremendous economic dislocation that is now occurring.

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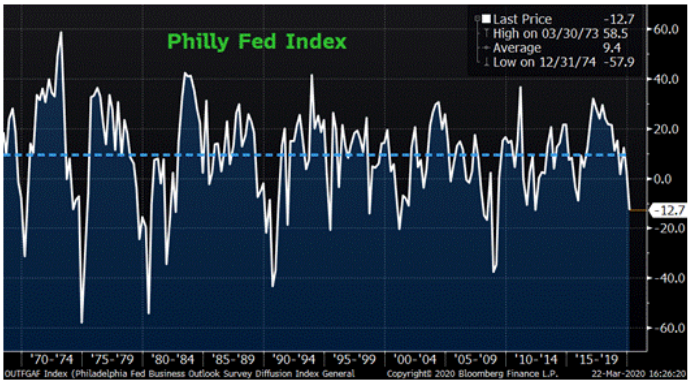
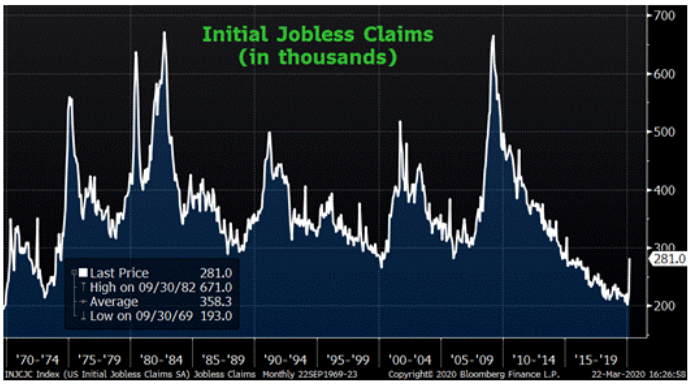
THE PRUDENT SPECULATOR
Economic Numbers Deteriorating Quickly





With the data starting to reflect the fallout from the shutdown of business in the wake of the COVID-19 scare, the Philadelphia Fed's measure of factory activity in the mid-Atlantic region for March plunged to -12.7 from a three-year high of 36.7 in February. Meanwhile, first-time claims for unemployment benefits spiked in the latest week to 281,000, though the tally is expected to move sharply higher.

The health of the economy is obviously a critical component as we work our way through the stay-at-home orders and business shutdowns in California, New York and elsewhere around the country that are designed to slow the spread of the virus ("flatten the curve") and avoid the overrunning of our hospitals, while allowing more time for additional medical supplies to be produced.

We do not mean to sound callous, but as *Star Trek's* Mr. Spock said, "The needs of the many outweigh the needs of the few," so we think that sooner, rather than later, a decision will have to be made between attempting to save lives and potentially permanently ruining the economy. Yes, those most at risk will be told to continue to self-isolate, but the country ultimately will have to get back to work, even as we understand that the COVID-19 death numbers potentially could dwarf the 12,469 U.S. soles who perished during the last global pandemic in 2009,…

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THE PRUDENT SPECULATOR
2009 U.S. Pandemic Influenza A (H1N1)

Infectious Diseases Society of America

To calculate the burden of 2009 pandemic influenza A (pH1N1) in the United States, we extrapolated from the Centers for Disease Control and Prevention's Emerging Infections Program laboratory-confirmed hospitalizations across the entire United States, and then corrected for underreporting. **From 12 April 2009 to 10 April 2010, we estimate that approximately 60.8 million cases (range: 43.3–89.3 million), 274 304 hospitalizations (195 086–402 719), and 12 469 deaths (8868–18 306) occurred in the United States due to pH1N1. Eighty-seven percent of deaths occurred in those under 65 years of age with children and working adults having risks of hospitalization and death 4 to 7 times and 8 to 12 times greater, respectively, than estimates of impact due to seasonal influenza covering the years 1976–2001.** In our study, adults 65 years of age or older were found to have rates of hospitalization and death that were up to 75% and 81%, respectively, lower than seasonal influenza.

https://academic.oup.com/cid/article/52/suppl_1/S75/499147

Comparison of Impact to Seasonal Influenza

Children were hospitalized due to pH1N1 at a rate of approximately 117 per 100 000 (Table 4). This is approximately 7 times greater than previously published rates of seasonal influenza–related hospitalization during the years 1979–2001 as estimated by Thompson et al. [4] (Table 4). Adults aged 18–64 years had approximately 4 times greater risk of being hospitalized compared to these published estimated rates. Adults 65 years of age or older, however, were hospitalized at a rate of 70 per 100 000, 75% lower than estimated hospitalization rates for this age group (Table 4).

Table 4.

Comparing Impact: 2009 Pandemic Influenza A (pH1N1) vs Seasonal Influenza: Deaths and Hospitalizations per 100,000 by Age Groups

Age (years)	Numbers per 100,000 (ranges)			
	Deaths		Hospitalizations	
	Median pH1N1a	Average 1990 to 1999b	Median pH1N1a	Average 1979 to 2001c
0–17	1.7	0.2	117.4	15.8
	(1.2–2.5)	(.03–.4)	(83.5–172.4)	(3.6–32.3)
18–64	5.0	0.4	83.8	20.8
	(3.6–7.3)	(.07–1.0)	(59.6–123.0)	(4.8–42.4)
65+	4.2	22.1	70.1	282
	(3.0–6.1)	(3.8–54.1)	(49.9–103.0)	(64.8–575.2)
All	4.1	3.1	90.2	52.4
	(2.9–6.0)	(.5–7.6)	(64.2–132.4)	(12.1–107.0)

…but 2.8 million Americans died in 2018, per the National Vital Statistics System, and we might guess that social distancing and better hygiene will drop the influenza/pneumonia and chronic lower respiratory disease death count down this time around as minor offsets, while there will be far fewer accidents with less people driving. Of course, suicides and opioid deaths are likely to rise.

Death is a Fact of Life

The number of reported COVID-19 deaths in Italy pushed past 5,400 this weekend, but the country does have an aging population, many of whom smoke, and the majority of deaths have been in the Lombardy region, which is notorious for poor air quality. The death toll will no doubt grow, but Italy has 60 million inhabitants and a 1.06% historical annual mortality rate. In the U.S., where there are 328 million of us, 2.8 million (0.85%) die every year from all sorts of causes.

Data table for Figure 2. Number of deaths, percentage of total deaths, and age-adjusted death rates for all causes and the 10 leading causes of death in 2018: United States, 2017 and 2018

Rank[1]	Cause of death (based on *International Classification of Diseases, 10th Revision* [ICD–10])		2017 Number	2017 Percent	2017 Rate[2]	2018 Number	2018 Percent	2018 Rate[2]
...	All causes		2,813,503	100.0	731.9	2,839,205	100.0	723.6
1	Diseases of heart	(I00–I09,I11,I13,I20–I51)	647,457	23.0	165.0	655,381	23.1	163.6
2	Malignant neoplasms	(C00–C97)	599,108	21.3	152.5	599,274	21.1	149.1
3	Accidents (unintentional injuries)	(V01–X59,Y85–Y86)	169,936	6.0	49.4	167,127	5.9	48.0
4	Chronic lower respiratory diseases	(J40–J47)	160,201	5.7	40.9	159,486	5.6	39.7
5	Cerebrovascular diseases	(I60–I69)	146,383	5.2	37.6	147,810	5.2	37.1
6	Alzheimer disease	(G30)	121,404	4.3	31.0	122,019	4.3	30.5
7	Diabetes mellitus	(E10–E14)	83,564	3.0	21.5	84,946	3.0	21.4
8	Influenza and pneumonia	(J09–J18)	55,672	2.0	14.3	59,120	2.1	14.9
9	Nephritis, nephrotic syndrome and nephrosis	(N00–N07,N17–N19,N25–N27)	50,633	1.8	13.0	51,386	1.8	12.9
10	Intentional self-harm (suicide)	(*U03,X60–X84,Y87.0)	47,173	1.7	14.0	48,344	1.7	14.2
...	All other causes	(residual)	731,972	26.0	...	744,312	26.2	...

... Category not applicable.
* Code not included in ICD–10.
[1]Based on number of deaths.
[2]Deaths per 100,000 U.S. standard population.
SOURCE: NCHS, National Vital Statistics System, Mortality.

Data Brief 355. Mortality in the United States, 2018

Certainly, we respect that fear is a powerful emotion when it comes to investing, but it appears that most on Main Street are thus far taking the downturn in stride, even as many on Wall Street would seem to be panicking. As happened during the Financial Crisis, the big boys the last couple of weeks have seemingly been dumping anything they can, including investments that are supposed to rise when equities are cratering.

We did find it fascinating last week to see hedge-fund manager Bill Ackman on *CNBC Television* tearfully tell us that he had a dream about all this a while back, that "Hell is Coming" and that "America will end as we know it," unless the President shuts down the country for a month. Of course, despite his obvious worries, Mr. Ackman was quick to add that he has been buying consumer discretionary stocks like Hilton, Restaurant Brands and Starbucks all the way down!

Actually, we agree with Mr. Ackman, who went on to say in that interview that capitalism doesn't work in an 18-month shutdown, but it does work in a 30-day shutdown…and we believe that the latter or something close to it will be what happens. Folks are having a tough enough time being cooped up at home for four days that we can't see how a stay-at-home order could extend beyond four weeks, especially when the data show that a disproportionate number of those dying are 80 and over and/or have one or more pre-existing conditions.

We are definitely braced for more downside in the near-term, and we still have a little cash in our accounts that we are looking to deploy, but for those who can stomach the volatility, we agree with legendary fund manager Bill Miller, who also said on *CNBC* last week, "There have been four great buying opportunities in my adult lifetime. The first was in 1973 and '74, the second was in 1982, the third was in 1987 and the fourth was in 2008 and 2009. And this is the fifth one."

Of course, as best they are able, and despite the citations above, we advise readers to turn off *CNBC*, which supposedly has had a 240% increase in viewership. Jason Zweig, he of *Your Money and Your Brain* fame had some words of wisdom out in Friday's *Wall Street Journal*…

Combat the contagion of other people's stress however you can. Warren Buffett reportedly calms himself by looking at snapshots of his family.

Social isolation is a threat to your portfolio as well as to your mental health. Without normal social contact, it's much harder for people to regulate their emotions, says Jamil Zaki, a social psychologist at Stanford University.

Even if you are sheltering in place to combat the spread of coronavirus, it's vital to remain as connected as possible with friends, family, mentors and people you admire. "We need to be separate physically but with each other psychologically," says Prof. Zaki. "That means using technology to create shared experience."

So, don't just call an investing buddy to say hello. Do a video tour of your home office, make the same meal at the same time, run a meeting of an investing book club together—anything that enables you to share some quiet and calming time with someone important to you.

Stock Updates

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 eight of our companies that posted quarterly results or had updates out 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/.

Shares of **Williams-Sonoma** (WSM – $36.37) were down more than 19% last week, but actually were up more than 18% Thursday and Friday after the luxury home goods retailer reported fiscal Q4 2020 financial results that were better than consensus analyst estimates. WSM posted revenue of $1.84 billion, versus the $1.82 billion estimate, and said its adjusted EPS for the period was $2.13, versus expectations of $2.06. Despite a solid Q4 and a good start to the year, shares are off more than 50% since the market peak as near-term concerns about the company's ability to conduct business during the coronavirus scare have taken investors eyes off the long-term potential. As we would expect most firms to do given the circumstances, WSM said it would suspend its near-term and 2020 guidance for the time being.

Williams-Sonoma closed stores in North America effective March 17, allowing for just curbside pickup over at least the next two weeks. While the company is still generally operating e-commerce sites, distribution centers and customer service, we would think that the fear that has gripped the U.S. around COVID-19 is likely to hurt discretionary categories like furniture and home furnishings disproportionately in the near-term and maybe for all of 2020. The potential positive on the other side of this is from its larger domestic manufacturing presence which is likely to offer less disruption in the supply chain, positioning the firm ahead of its peers for when demand returns.

CEO Laura Alber commented, "2019 was an outstanding year for our company. We delivered a strong holiday season, outpacing the industry with comparable brand revenue growth of 7.6% in the fourth quarter. West Elm outperformed with a comp of 13.9%, the Pottery Barn brands' resurgence continued with a combined comp of 7.1%, and the Williams Sonoma brand returned to growth with a comp of 3.3%. The drivers of our outperformance include an expanded, more relevant product assortment, new customer acquisition and further innovations in our customer experience across e-commerce, stores and the supply chain. Our cross-brand initiatives business to business, The Key and in-home Design Crew also continued to scale and become more impactful accelerators of our growth. For the full year, we achieved our goal of maximizing growth and maintaining high profitability with topline and non-GAAP EPS growth at the high-end or above expectations and operating margin expansion. It is clear from these results that our continued evolution and innovation are setting us apart from the competition. This culture is woven into our design-driven products, our digital-first model, and in our commitment to sustainability leadership. And together with our strong growth initiatives, we have a winning combination."

Ms. Alber continued, "Looking ahead to 2020, it is hard not to acknowledge the devastating impact that the coronavirus outbreak is having on communities around the world. Our thoughts are with all of the people affected and our top priority is the safety and well-being of our associates, our customers and our business partners. And, we are taking action to prepare and adapt our business in this time of uncertainty. We would like to thank our people for all their hard work and for their continued commitment to serving our customers as we navigate this challenging time together."

We have no idea what the near-term will bring for WSM. However, we think there will be very attractive upside for shares in the long-term. We believe WSM's past focus on technology, collaborations with other brands, in-store and in-home design consultations and sizable online presence, will be a difference maker in the future, and we see the firm as having a solid enough balance sheet to weather the current storm. All considered, our Target Price has been adjusted to $76.

Shares of staffing solutions provider **ManpowerGroup** (MAN – $54.38) continued to drop last week after the company announced that it was withdrawing its Q1 financial guidance. Truly, we were perplexed by how the news came as such a grand surprise as even those companies that have seen benefit from the COVID-19 scare have little way to project their sales or profits in the short-term. Alas, Wall Street analysts evidently were shocked by the development in that several chose to downgrade the stock on the new revelation.

Manpower CEO Jonas Prising stated "We have witnessed significant disruption in the business environment starting in March 2020, especially in certain European markets. Recent government-imposed restrictions, particularly in France, have significantly impacted businesses and their workforces. We believe our extensive use of remote and mobile enabled technology serves as a competitive advantage which allows us to continue to support our clients and associates in markets experiencing significant disruption."

Despite that bit of quasi good news, he went on to say, "As a result, the previous assumptions we have made about the first quarter are no longer applicable. Given the uncertainty and fluidity of the current global situation, we are withdrawing the guidance provided on January 31, 2020. We expect to provide more detailed analysis in conjunction with the earnings report for Q1, which is currently expected to be released between April 17, 2020 and April 22, 2020…As always, our first priority is the health and safety of our employees, clients and the communities in which we operate. We are actively working with our clients to serve their evolving needs and maximizing our efforts to ensure our people have the access, tools and technology to get work done safely in these fast-changing and unprecedented times."

While the near-term vision is more than a bit foggy, we recognize that some of the original sufferers of the coronavirus scare, such as China, are beginning to get back on their feet. In the long run, we believe that MAN's broad geographic footprint, wide range of offerings, and solid-enough balance sheet will allow it to make it through to the other side, with it highly likely that recovering businesses will find its staffing services highly valuable. Our Target Price is now $121.

Cummins Inc. (CMI – $116.48) released an update on Friday that it has now suspended production at its Midrange Engine Plant in Indiana for two weeks in response to a major customer that halted its operations through the end of March as a consequence of the coronavirus pandemic.

At an Industrial Conference on March 3, Executive Director of Investor Relations gave the following update regarding Cummins' Chinese operations, "What we've seen right now, we have about 10 facilities in the Hubei province in China, many more dotted throughout the rest of the country. In general, our facilities open 1 to 4 weeks after the Lunar New Year. So a delay on opening there. And our total China exposure on consolidated sales is about $40 million to $50 million a week. In addition to that, our JV income is about $200 million a year in China. So definitely had some negative impacts on domestic China consumption given the delays in start-up of our facilities. Almost all of the facilities now are up and running to some degree. Some of them 100%, some less than that. And I'd say the ones that are running a little less than that, it's really driven at this point by OEM partners whose facilities aren't up and running 100%."

Alas, like most of Corporate America, management has now pulled the guidance it gave back in February, given the growing uncertainty about demand in 2020, and expects to offer more color as it releases its Q1 earnings at the end of April. CEO Tom Linebarger explained, "Cummins is in a strong financial position, we have experienced leaders who have managed through several challenging situations in the past and we will successfully navigate through this difficult period. As of December 31, 2019, the company held cash, cash equivalents and marketable securities of

$1.5 billion and committed borrowing capacity of $2.8 billion under existing revolving credit facilities."

As a participant in a very cyclical industry, Cummins is no stranger to significant ebbs and flows and we are optimistic that demand will eventually return once clouds related to COVID-19 eventually part. The company is a preeminent player with a strong brand in the diesel powertrain ecosystem, and we continue to believe that Cummins will increasingly enjoy long-term benefits from its overseas exposure (especially via emerging economies), as its leading-edge technology in truck engines helps it gain market share. Our Target Price is now $186.

Footwear retailer **Designer Brands** (DBI – $5.54) released its Q4 and full-year earnings results for FY 2020 on Tuesday. The quarterly loss of $0.05 per share compared favorably against an expected loss of $0.06, while full-year earnings and revenue growth was -7.8% and 9.7%, respectively. Management cited lower clearance activity, improved working capital and operating leverage through the reduction of occupancy costs in its Canada Retail segment, which has been a focal point for improvement over the past several quarters. Higher shipping costs and others associated with the relaunch of the DSW VIP rewards program detracted from full-year 2019 gross profit. The negative impact from tariffs is now expected to be $10 to $15 million, versus the $25 to $30 million the company expected last quarter.

Shares experienced quite the ride on the week, sliding to a low point of $2.60 Wednesday before doubling off of that low-water mark. With current global events at the forefront of investors' minds, Chief Executive Officer Roger Rawlins commented, "The impact of COVID-19 on our business and industry is unprecedented, and our thoughts are with those individuals who have been directly affected by the virus. At the direction of government officials to flatten the curve, and in an attempt to safeguard the long-term stability of our business, we have made the difficult decision to temporarily close our North American retail locations, as of close of business today. However, we will continue to serve our customers through our leading e-commerce infrastructure, which we have invested in heavily over the last few years. Our warehouses will remain open to fulfill our online orders, operating under our emergency preparedness plan, and all retail employees will be compensated in the near-term."

To preserve the Company's liquidity due to the potential impacts of COVID-19, the board reduced the amount of the most recently declared dividend to $0.10 per share, down from the previous level of $0.25 per share. DBI repurchased 7.1 million shares in fiscal 2019, reducing the overall share count by roughly 10%.

Mr. Rawlins gave the following outlook regarding the company's financial position and the prospects for future capital returns, "We have a solid balance sheet with modest bank debt levels outstanding, and we expect to return to normal investment and distribution policies as we return to normalcy and volatility subsides. Due to the current level of uncertainty, which we expect to continue in the coming months due to the rapidly evolving and unprecedented circumstances surrounding COVID-19, we are refraining from providing 2020 guidance."

Management has committed to paying employees affected by store closures for the subsequent two weeks. The company is aggressively pursuing material cost savings across the business while reducing capital expenditures previously planned for 2020.

Despite the headwinds in the current environment, we like the progress the company has made to develop differentiated products, offer differentiated experiences (both in-store and online) and pursue new growth opportunities. However, we continue to weigh our now very-small interest in DBI with several other opportunities the recent market decline has presented. Our Target Price for DBI has been lowered to $16.

Benchmark Electronics (BHE – $17.28) reported on March 16 that it will not achieve its first quarter 2020 guidance as a result of the novel coronavirus. Benchmark's press release said, "This updated outlook results primarily from the impact of the temporary shutdown of its plant in China due to COVID-19, supply chain and logistics interruptions from Asian suppliers impacted by the virus, and the emerging restrictions related to government regulations on its operations. Benchmark's factory in Suzhou China was proactive in working with the government to come back online five weeks ago and is now fully operational. The situation with COVID-19 continues to evolve rapidly, and the company is closely monitoring impacts to its business. Benchmark expects to provide more information during its next earnings call in April. "

Jeff Benck, Benchmark President and CEO, commented, "Our deepest sympathies go out to those who have been impacted by the COVID-19 outbreak. The health and wellbeing of Benchmark employees, customers, partners and our communities in which we operate are of the utmost importance. Benchmark is following all government guidelines and taking precautionary steps to protect our global organization. Since this crisis has emerged, the Benchmark team has risen to the challenge to support our customers. The extraordinary efforts of our team members are deeply appreciated."

Benchmark supplies a wide variety of industries, including aerospace, defense, computing, telecom, medical and semiconductor equipment. While the diversification is positive, it also makes it hard to believe that all those segments will escape unscathed from the coronavirus. As are result, we have trimmed our Target Price to $34, but we think that the once-again operational production in China will eventually be met by demand and that the strong balance sheet with more than $5 per share in net cash will be able to carry the company through a period of prolonged headwinds. Benchmark shares yield 3.7%.

Shares of **FedEx** (FDX – $111.06) gained more than 5%, an unusually bright spot for the week, after the company reported fiscal Q3 2020 results that beat analyst estimates. The package and freight delivery giant earned $1.41 per share (vs. $1.27 est.) and had revenue of $17.5 billion (vs. $16.8 billion est.). Unsurprisingly, the company withdrew its guidance due to COVID-19 uncertainty. CFO Alan Graf said, "To mitigate these near-term headwinds and position the company for future earnings growth, we are attacking costs throughout the company by managing capacity, retiring our oldest and least-efficient aircraft, integrating TNT Express, and lowering our residential delivery costs by having FedEx Ground deliver FedEx SmartPost and certain day-definite FedEx Express packages."

“The COVID-19 pandemic is having a significant impact around the world,” said CEO Frederick W. Smith. “We continue to deliver for our customers and are ready to support increased demand for our International Express export services due to the significant reductions in intercontinental air capacity. While the global economic impact from recent social-distancing mandates is uncertain, we remain well positioned to assist our customers as they work to manage their supply chains and inventories. We will continue to support efforts to combat the pandemic.”

While some airlines are on the ropes and some have already gone bust as a result of coronavirus-related restrictions on travel, we think that FedEx will actually benefit from two significant factors. The first is that, as Mr. Smith said, FDX will be able to pickup slack from the airlines. In regularly scheduled passenger service, there’s often a significant amount of belly cargo that includes packages, U.S. Postal Service mail and other express shipments. Between many markets, the cargo is what makes the route viable, rather than cargo of the passenger variety. We expect FDX to benefit from the drastic reductions in airline schedules, though we note that American Airlines and others are flying passenger equipment empty with bellies full of cargo to maintain some level of airplane utilization, and in some situations collecting much higher fees than normal. The second factor, perhaps unsurprisingly, is cheap jet fuel.

We think that while FDX won’t come out from the coronavirus shutdowns unscathed, the shifting demand, strong balance sheet, modest dividend yield and position as an industry leader are things that will help the company survive. FDX trades just above 10 times forward earnings and the dividend payment, which was declared on February 14, puts the yield around 2.3%. Our Target Price for FDX has been cut to $203, but we remain long-term fans of the company and its stock.

It has been a long time since an entire industry was brought to its knees, especially in just four weeks. But that’s what the fast spread of the coronavirus has done to **Delta Air Lines** (DAL – $21.35) and the rest of world’s air carriers. Shares of DAL have plunged more than 60% in four weeks, a result of a 70% reduction in the airline’s operating schedule for April and May. CFO Paul Jacobson told employees to expect Delta to be a smaller airline when it “comes out of [the coronavirus shutdown],” while the company will park about half of its active fleet in the hotter and dryer southern part of the U.S. We expect some of those airplanes to return to the fleet (many are very new), but it’d be unsurprising to see most of the 767s and MD-88/90s stay in the desert permanently.

Airline leaders were reported to have been in Washington D.C. over the past week, lobbying for some level of bailout. We aren’t sure what that would look like or how that’d affect equity holders at this point. But we think that Delta’s balance sheet is stronger than the other two U.S. majors, American and United. Were we to lobby for the airlines in Washington, we’d be wanting a long-term low-interest loan, tax credit or similar assistance that doesn’t wipe out debt and equity holders. While the airlines have a lot of debt, they are in substantially better shape than they were after 9/11. Ultimately, we expect the U.S. airlines to survive in some form, though we’d expect they’ll all emerge smaller. Of course, that all depends on the lengths of the current travel restrictions, and that uncertainty raises the near-term risk.

As it seeks assistance from Uncle Sam, Delta has suspended its dividend payout and its stock repurchase program. Our Target Price for Delta is $62.

Despite closing 20% higher on Friday, shares of cruise operator **Carnival Corp** (CCL – $12.00) remain 76% below their price on January 2 this year. The company's earnings announcement Friday morning revealed a beat of consensus analyst expectations ($0.22 vs. $0.15), but the story for investors has turned from profitability to survivability in the near-term, as the effects of COVID-19 are on full display within the cruise business, perhaps more than any other. The cruise line's 546,000 bookings for the first half of fiscal 2021 through March 15 considerably lagged last year's pace, while effects from the coronavirus were perhaps most evident in cumulative advance bookings as of March 15 for the remainder of 2020, which are meaningfully lower than last year and at considerably lower prices according to the company.

The firm has notified lenders of its intention to borrow close to $3 billion from its 5-year revolving credit facility to boost liquidity, roughly equivalent to net income earned in both 2018 and 2019. Management also noted in a recent filing that "Substantially all of the Corporation's assets, with the exception of certain ships with a net book value of approximately $6 billion as of February 29, 2020, are currently available to be pledged as collateral." While out of passenger action for the time being, Carnival has offered its ships for use as hospital overflow, which could help cover the cost of the ships' operation and allow the firm to preserve capital. There has been some speculation around a form of government assistance the company might receive, but we see this as unlikely as cruise companies have long registered their vessels in countries outside the U.S. to reduce their taxes.

COVID-19 has also had an effect on the shipyards where Carnival's ships are under construction, which is expected to delay future ship deliveries, of which there were 17 cruise ships scheduled for build at four shipyards at the end of 2019. This might actually turn into blessing for Carnival, which had arranged $5.9 billion of additional financing that it may be able to draw on for other purposes in the near term.

As we've said recently, we do not know what the long-term impact will be on the cruise industry, but we are still of the mind that Carnival's brand and financial position are strong enough to weather the unprecedented hurricane that it now faces. Of course, the company must survive long enough to ultimately benefit again from the favorable dynamics that we think make cruising a very viable travel option. As such, our continued ownership is tenuous, as we assess other options for our exposure in the travel space. As we await more details when the company releases its full Q1 results at the end of the month, our Target Price is now $32.