Market Commentary Monday, May 18, 2020

May 18, 2020

EXECUTIVE SUMMARY

Week in Review – Very Tough Sledding for the Average Stock and Value
COVID-19 – Death Toll Rate Slowing; Fauci Worried About Reopening Economies
Econ News – Sentiment Numbers Less Worse
Powell Speaks – Fed Chair Concerned for the Short-Run; Positive on Long- and Medium-Run
Corporate Profits – Miserable Near-Term Outlook
Cyclically Adjusted 10-Year P/E – Elevated Shiller CAPE
Past Shiller Peaks and Stocks – 2000, 1966 and 1929 Marked the Start of Many Years of Long-Term Value Outperformance
AAII & ICI Fund Flows – Still No Love for Stocks
Inefficient Markets – BLK Rides a PNC-Induced Roller-Coaster
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on ALIZY, HMC, DPSGY, TAK, NTTYY, CSCO & NLOK

Market Review

It could have been worse, given where stocks were trading on Thursday morning, but it was a miserable trading week just completed. Indeed, the S&P 500 Pure Value index skidded 6.91%, the Russell 2000 small-cap benchmark dropped 5.42% and the Russell 3000 Value index dipped 4.47%. The average stock in the broad-based Russell 3000 index plunged 5.63%, so the relatively benign performance of the capitalization-weighted S&P 500 and the price-weighted Dow Jones Industrial Average (off 2.20% and 2.61%, respectively) continued to mask the ugly returns seen this year in much of the U.S. equity market.

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THE PRUDENT SPECULATOR
S&P 500 Equal Weight & Value Lagging

Returns for the average stock and the more inexpensive areas of the equity market have been trailing growth (and bonds) by a wide margin.

Total Returns Matrix

Since 2.19.20	Since 3.23.20	Year to Date	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Name
0.51	3.73	0.73	4.99	11.24	13.73	14.43	30.80	63.50	149.62	Bloomberg Barclays Global-Aggregate Bond
2.81	3.79	4.86	10.01	16.22	20.81	26.43	46.19	90.84	178.20	Bloomberg Barclays US Aggregate Bond
-18.86	27.75	-16.27	-5.37	21.14	46.41	83.54	186.33	242.07	254.71	Dow Jones Industrial Average
-21.73	25.24	-20.53	-11.09	2.18	11.51	37.84	102.01	135.92	149.67	New York Stock Exchange Composite
-18.43	32.54	-14.28	-6.06	13.34	25.93	71.81	167.30	245.04	166.86	Russell 2000 Growth
-33.28	**17.34**	**-34.67**	**-29.48**	**-24.21**	**-9.32**	**10.79**	**56.74**	**95.66**	**274.85**	**Russell 2000 Value**
-25.42	25.69	-24.25	-17.57	-5.98	8.46	40.10	107.88	164.92	230.48	Russell 2000
-9.21	33.30	-1.05	14.26	51.62	80.56	149.26	293.63	358.80	175.72	Russell 3000 Growth
-24.01	**23.52**	**-23.25**	**-13.77**	**-2.64**	**11.80**	**43.95**	**120.66**	**137.66**	**202.58**	**Russell 3000 Value**
-16.10	29.00	-11.81	0.47	23.24	44.13	92.34	199.43	236.98	203.45	Russell 3000
-22.36	27.18	-20.37	-10.65	6.11	22.17	65.13	166.30	234.65	352.53	S&P 500 Equal Weighted
-15.01	28.37	-10.69	2.47	26.53	49.46	99.28	210.55	239.27	191.62	S&P 500
-9.52	31.75	-1.59	10.92	46.48	76.03	143.09	288.19	335.39	200.29	S&P 500 Growth
-21.69	**23.88**	**-20.96**	**-7.42**	**5.90**	**21.75**	**56.22**	**138.03**	**151.58**	**165.45**	**S&P 500 Value**
-13.63	36.13	-7.31	2.35	29.89	47.21	107.90	266.04	354.97	257.86	S&P 500 Pure Growth
-36.94	**24.14**	**-38.67**	**-31.81**	**-22.32**	**-14.06**	**20.32**	**98.90**	**144.39**	**335.87**	**S&P 500 Pure Value**
-26.17	4.39	-25.28	-16.62	3.33	16.52	50.08	122.03	205.84	347.75	Berkshire Hathaway B

As of 5.15.20. Source Kovitz using data from Bloomberg

Renewed concerns on trade with China certainly didn’t help matters last week, but sobering testimony from Dr. Anthony Fauci on the COVID-19 front likely weighed more heavily. The White House coronavirus task force member expressed worries as states begin to reopen economies across the country, telling the U.S. Senate, “My concern that if some areas — cities, states or what have you — jump over those various checkpoints and prematurely open up, without having the capability of being able to respond effectively and efficiently, my concern is we will start to see little spikes that might turn into outbreaks…There is a real risk that you will trigger an outbreak that you may not be able to control, which in fact, paradoxically, will set you back, not only leading to some suffering and death that could be avoided but could even set you back on the road to try to get economic recovery.”

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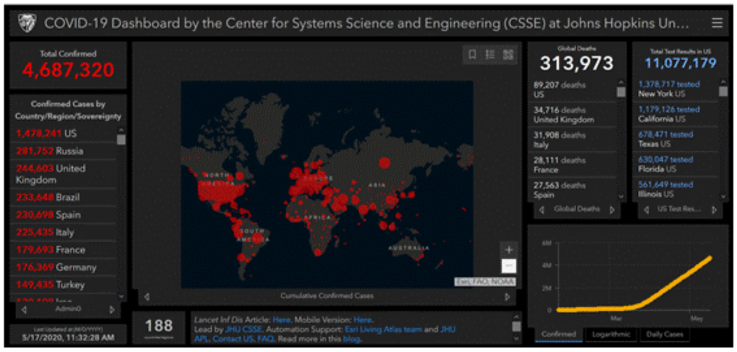
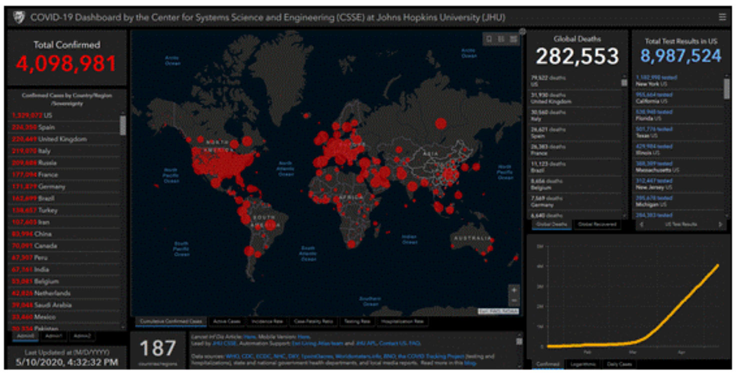
THE PRUDENT SPECULATOR
Slowing COVID-19 Global Spread





Covid-19 confirmed cases and deaths continued to rise in the latest week, with the U.S. now up to nearly 90,000 fatalities, but the so-called "curve" has flattened. And countries and states are slowly reopening their economies, though the health threat is hardly contained, sparking worries about a second wave of infections, even as progress continues to be made on antivirals and vaccines.

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

We do not know how the numbers will change in the weeks and months ahead as personal experience over the weekend in Orange County showed that folks were tired of being cooped up and ready to get on with their lives, while social distancing and mask wearing were not always standard operating procedure for everyone. Still, the rate of growth in number of fatalities has been slowing around the world, with an increase of 11.1% in the latest weekly numbers reflected in our Johns Hopkins chart above, down from a rise of 14.8% the week prior and a jump of 19.7% the week before that one. True, the number of deaths remains very disconcerting, with the latest forecasts for the overall U.S. mortality tally rising again,…

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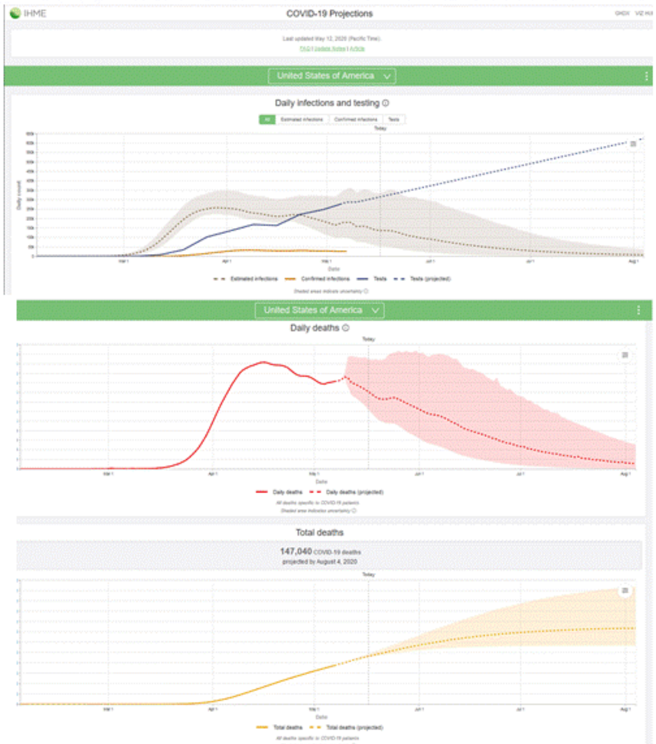
THE PRUDENT SPECULATOR
Increasing COVID-19 Death Projections

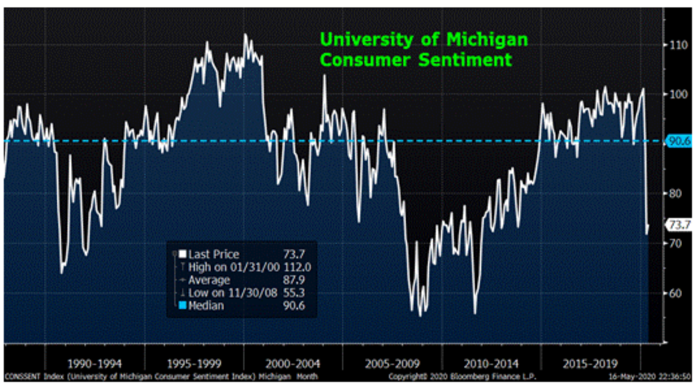


Source: https://covid19.healthdata.org/united-states-of-america

Total COVID-19 fatality estimates by 8.4.20 from the University of Washington's Institute for Health Metrics and Evaluation climbed to 147,040, due to "planned and actual easing of social distancing, changes in mobility, and variability in testing, as well as the observation that deaths in certain U.S. states have been staying at a higher level for a longer period of time than seen in other countries that experienced earlier epidemics."

…but the health news has continued to become less worse in many instances, with Italy on Sunday reporting its smallest increase in coronavirus deaths in two months and New York City Mayor Bill de Blasio saying that the percentage of positive tests and intensive care unit admissions has declined.

Of course, while less worse also was a phrase to use with data out last week on small business and consumer confidence,…



While the NFIB Small Business Optimism Index for April fell 5.5 points to 90.9, the figure topped the 84.8 estimate AND an index of expected business conditions six months from now soared 24 points, suggesting most expect the recession to be short-lived. The preliminary Univ. of Michigan gauge of consumer sentiment this month also beat expectations, recovering a couple of points to 73.7.

…Federal Reserve Chair Jerome H. Powell, like Dr. Fauci, was cautious in his near-term outlook. In a speech titled *Current Economic Issues* at the Peterson Institute for International Economics, Washington, D.C. (via webcast), Mr. Powell had plenty to say:

The scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II. We are seeing a severe decline in economic activity and in employment, and already the job gains of the past decade have been erased. Since the pandemic arrived in force just two months ago, more than 20 million people have lost their jobs…This downturn is different from those that came before it. Earlier in the post– World War II period, recessions were sometimes linked to a cycle of high inflation followed by Fed tightening. The lower inflation levels of recent decades have brought a series of long expansions, often accompanied by the buildup of imbalances over time—asset prices that reached unsupportable levels, for instance, or important sectors of the economy, such as housing, that boomed unsustainably. The current downturn is unique in that it is attributable to the virus and the steps taken to limit its fallout. This time, high inflation was not a problem. There was no economy-threatening bubble to pop and no unsustainable boom to bust. The virus is the cause, not the usual suspects—something worth keeping in mind as we respond.

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Fed Chair Jerome H. Powell: 5.13.20

***While the economic response has been both timely and appropriately large, it may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks.** Economic forecasts are uncertain in the best of times, and today the virus raises a new set of questions: How quickly and sustainably will it be brought under control? Can new outbreaks be avoided as social-distancing measures lapse? How long will it take for confidence to return and normal spending to resume? And what will be the scope and timing of new therapies, testing, or a vaccine? The answers to these questions will go a long way toward setting the timing and pace of the economic recovery. Since the answers are currently unknowable, policies will need to be ready to address a range of possible outcomes.*

The overall policy response to date has provided a measure of relief and stability, and will provide some support to the recovery when it comes.** But the coronavirus crisis raises longer-term concerns as well. The record shows that deeper and longer recessions can leave behind lasting damage to the productive capacity of the economy. Avoidable household and business insolvencies can weigh on growth for years to come. Long stretches of unemployment can damage or end workers' careers as their skills lose value and professional networks dry up, and leave families in greater debt. The loss of thousands of small- and medium-sized businesses across the country would destroy the life's work and family legacy of many business and community leaders and limit the strength of the recovery when it comes. These businesses are a principal source of job creation—something we will sorely need as people seek to return to work. A prolonged recession and weak recovery could also discourage business investment and expansion, further limiting the resurgence of jobs as well as the growth of capital stock and the pace of technological advancement. **The result could be an extended period of low productivity growth and stagnant incomes.

We ought to do what we can to avoid these outcomes, and that may require additional policy measures**. At the Fed, we will continue to use our tools to their fullest until the crisis has passed and the economic recovery is well under way. Recall that the Fed has lending powers, not spending powers. A loan from a Fed facility can provide a bridge across temporary interruptions to liquidity, and those loans will help many borrowers get through the current crisis. But the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems. **Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery. This tradeoff is one for our elected representatives, who wield powers of taxation and spending.

Still, he reminded us that plenty is being done by the White House, Capitol Hill and the Fed…

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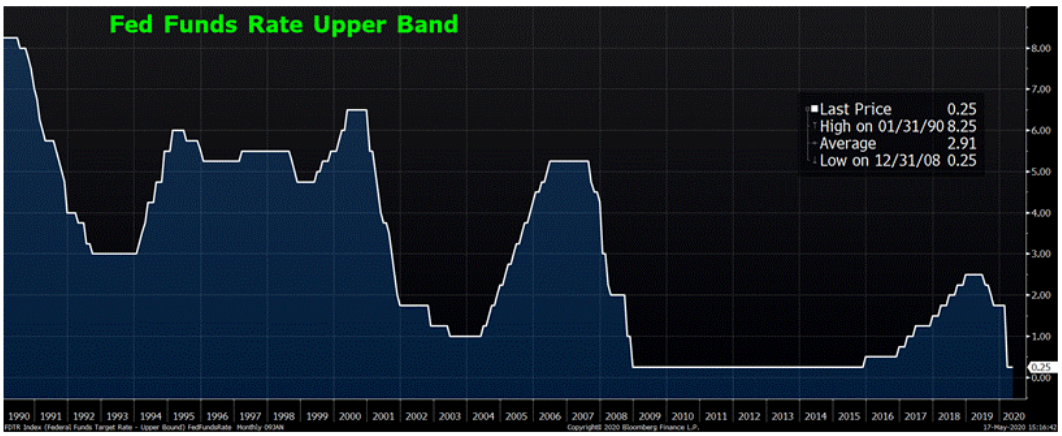
Unprecedented Action from Washington

To date, Congress has provided roughly $2.9 trillion in fiscal support for households, businesses, health-care providers, and state and local governments—about 14 percent of gross domestic product. While the coronavirus economic shock appears to be the largest on record, the fiscal response has also been the fastest and largest response for any postwar downturn.

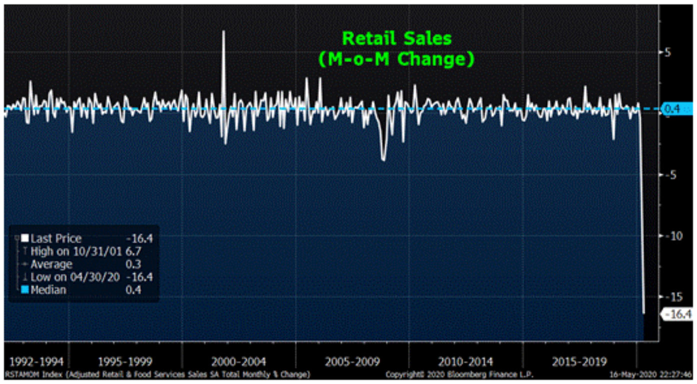
At the Fed, we have also acted with unprecedented speed and force. After rapidly cutting the federal funds rate to close to zero, we took a wide array of additional measures to facilitate the flow of credit in the economy, which can be grouped into four areas. First, outright purchases of Treasuries and agency mortgage-backed securities to restore functionality in these critical markets. Second, liquidity and funding measures, including discount window measures, expanded swap lines with foreign central banks, and several facilities with Treasury backing to support smooth functioning in money markets. Third, with additional backing from the Treasury, facilities to more directly support the flow of credit to households, businesses, and state and local governments. And fourth, temporary regulatory adjustments to encourage and allow banks to expand their balance sheets to support their household and business customers. – Jerome H. Powell, May 13, 2020



…and Mr. Powell added on Sunday during an appearance on the CBS television show *60 Minutes*, "In the long run and even in the medium run, you wouldn't want to bet against the American economy. The American economy will recover…Assuming there's not a second wave of the coronavirus, I think you'll see the economy recover steadily through the second half of the year, however, for the economy to fully recover…that may have to await the arrival of a vaccine."

To be sure, we share the view that the economy and the equity markets will be OK in the long run and even in the medium run, but the near term is the big question mark as many of the econ stats are unbelievably bad,…

THE PRUDENT SPECULATOR
Terrible Economic Numbers



With virtually the entire country under stay-at-home orders during the month, retail sales for April plunged 16.4%, the worst drop on record, with clothing, electronics and furniture stores the hardest hit. The latest weekly figures on first-time claims for jobless benefits saw a slight drop to "only" 3.0 million new filings, bringing the eight-week COVID-19-related total to more than 36 million.

…which is causing significant downward revisions in estimates for corporate profits,…

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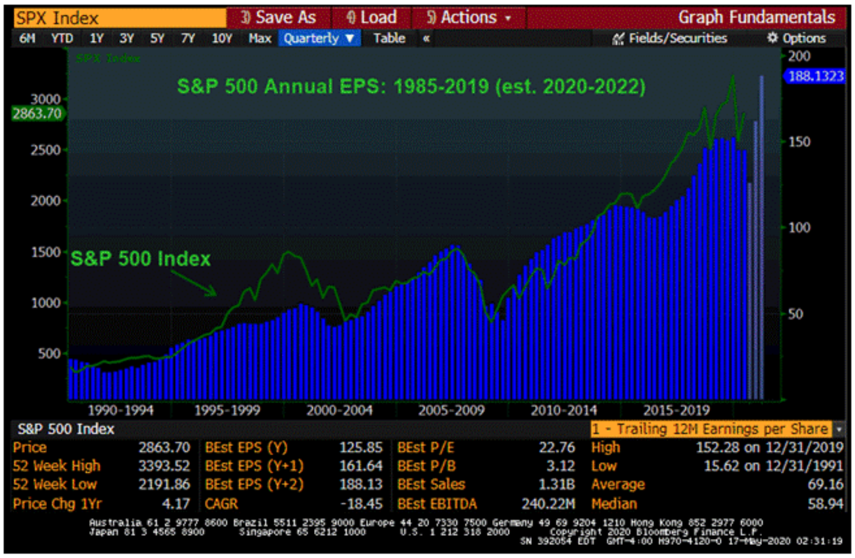
THE PRUDENT SPECULATOR
EPS to Crater in ‘20 and Rebound in ’21

Analysts are likely still too high in lowering their projections for COVID-19-impacted earnings this year, but it is hardly unreasonable to expect a significant rebound in corporate profits in 2021.

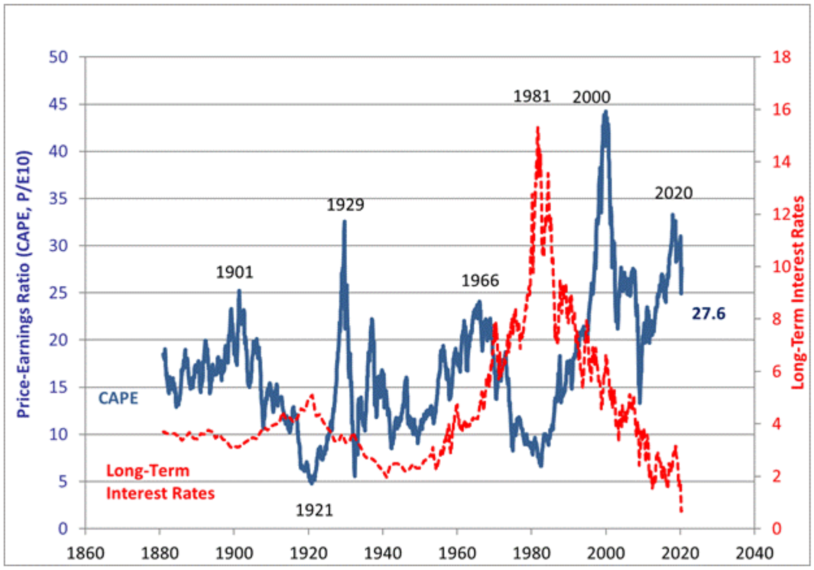


S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.80	$163.14
9/30/2021	$42.52	$154.75
6/30/2021	$38.53	$143.83
3/31/2021	$37.29	$128.96
12/31/2020	$36.41	$111.67
9/30/2020	$31.60	$114.44
6/30/2020	$23.66	$122.65
3/31/2020	$20.00	$139.13
ACTUAL		
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

Source: Standard & Poor's. As of 5.14.20

…and causing at least one prominent billionaire hedge fund manager to warn last week, “This is the second-most overvalued stock market I’ve ever seen. I would say ’99 was more overvalued.” While we concede that P/E ratios for the S&P 500 are at the high end of the historical spectrum,…

Shiller Cyclically Adjusted 10-Year P/E (CAPE)



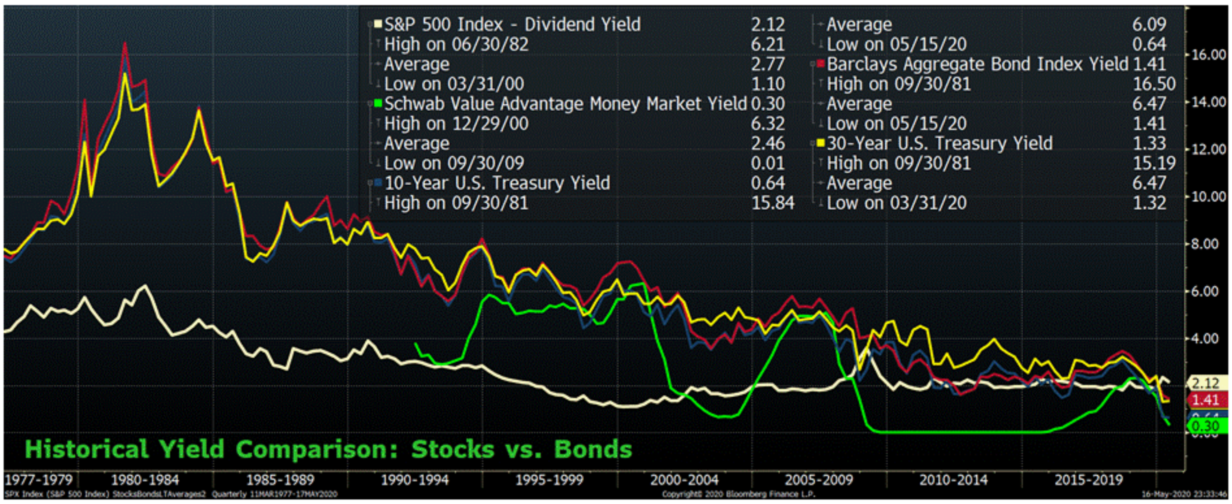
http://www.econ.yale.edu/~shiller/data.htm

COVID-19 is doing a number on corporate profits in the near-term, putting more upward pressure on the Cyclically Adjusted 10-Year P/E (CAPE) ratio compiled by Yale University Professor Robert Shiller. Of course, we like what transpired…for Value stocks…following previous CAPE peaks in 1929, 1966 and 2000.

…we do not think metrics can be viewed in a vacuum as interest rates were in the 600 basis point range back in 1999-2000, versus the microscopic levels at which they reside today.

THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (2.12%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than seven times** as much today as does a prominent money market fund (SWVXX)!



That said, we would love to see history repeat, or at least rhyme, with what was seen following that supposedly "overvalued" period back in the '99-'00 timespan when the gap between Value and Growth stock performance looked a lot like to does today,…

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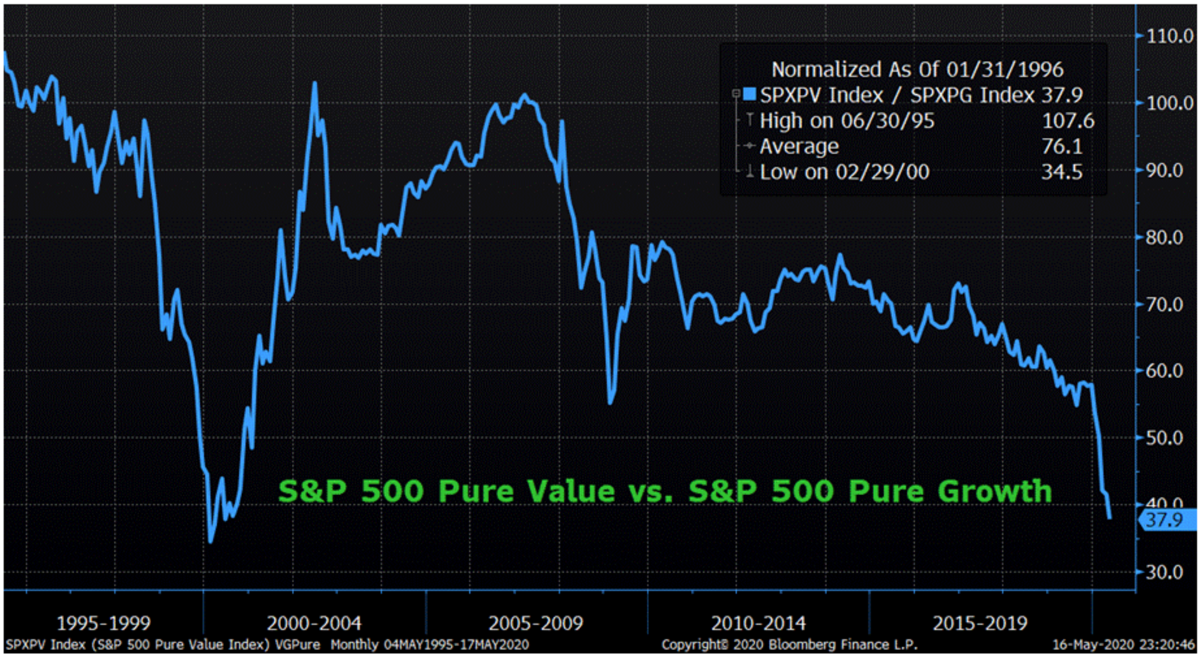
Pure Value “Buy” Signal Like March 2000

Stocks with inexpensive financial fundamentals have been crushed in the COVID-19 wake, but Pure Value is near March 2000 relative levels.



…and Value stocks went on to post fantastic relative returns over the ensuing 1-,3-, 5-, 7-, 10-, 15- and 20-year periods.

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We Hope Now is Like March 2000

Despite enduring significant volatility along the way, Value strategies performed very well, with the S&P 500 Pure Value index the easy winner, following the bursting of the Tech Bubble in March 2000.

Total Returns Matrix Post March 31, 2000

Name	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol
Dow Jones Industrial Average TR	-8.21	-22.70	6.14	30.81	25.09	132.79	224.39	DJITR Index
Russell 3000 Total Return Growth Index	-42.52	-58.70	-43.96	-31.70	-33.57	37.77	119.25	RU30GRTR Index
Russell 3000 Total Return Value Index	**1.48**	**-17.20**	**33.14**	**76.71**	**41.17**	**167.78**	**190.12**	**RU30VATR Index**
Russell 3000 Total Return Index	-22.26	-40.39	-11.79	12.17	-0.73	97.19	161.01	RU30INTR Index
S&P 500 Growth Total Return Index	-38.19	-50.50	-34.68	-23.23	-25.53	54.87	143.54	SPTRSGX Index
S&P 500 Value Total Return Index	**-1.07**	**-30.12**	**10.04**	**46.09**	**15.97**	**114.98**	**154.67**	**SPTRSVX Index**
S&P 500 Total Return Index	-21.68	-40.93	-14.84	6.40	-6.35	84.03	154.83	SPXT Index
S&P 500 Pure Growth Total Return Index	-31.60	-54.66	-26.15	-10.93	-8.12	119.03	177.90	SPTRXPG Index
S&P 500 Pure Value Total Return Index	**23.92**	**3.59**	**103.40**	**183.68**	**140.69**	**438.00**	**352.33**	**SPTRXPV Index**

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

And, for those worried about those other peak equity valuation levels in the Shiller CAPE chart above, we also wouldn't be unhappy to see a repeat of Value-stock relative and absolute outperformance in the "Dow Went Nowhere" years that followed 1966,…

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Dow Went Nowhere: 1966 to 1982

Incredibly, the Dow Jones Industrial Average actually lost ground over a 16-year time span from the beginning of 1966 to the beginning of 1982, yet the total return on Value stocks was a superb 13.39% per annum. Obviously, stock picking mattered as the S&P 500's annualized return was *only* 5.97%, though Non-Dividend Payers outperformed Dividend Payers by more than 1% per year. Despite losing nearly 10% of its price, the Dow's total return during the period was 3.94% per annum.

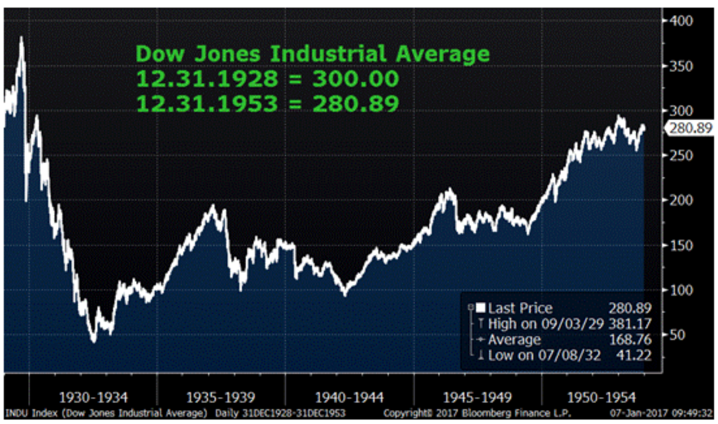
Annualized Total Returns	
16 Years	
12.31.65 - 12.31.81	
FF Value	13.39%
FF Growth	7.35%
FF Divs	7.29%
FF No Divs	8.44%
S&P 500	5.97%

Source: Data compiled by Professors Fama & French and https://dqydj.com/sp-500-return-calculator/

…and even 1929!

THE PRUDENT SPECULATOR
Dow Went Nowhere: 1929 to 1954

Illustrating that index values tell only part of the story, the Dow Jones Industrial Average actually lost ground over a 25-year time span from the beginning of 1929 to the beginning of 1954, yet the total return on stocks ranged from 4.02% to 8.32% per annum, with the S&P 500's annualized return coming in at a respectable 6.07%. The reason for the difference between the price-return-only Dow measure and the actual returns investors might have earned is dividends and their reinvestment.



Annualized Total Returns	
25 Years	
12.31.28 - 12.31.53	
FF Value	8.32%
FF Growth	5.64%
FF Divs	6.03%
FF No Divs	4.02%
S&P 500	6.07%

Source: Data compiled by Professors Fama & French and https://dqydj.com/sp-500-return-calculator/

Our long and medium run optimism notwithstanding, we remain braced for additional volatility in the short run, though we continue to like from a contrarian standpoint that there remains little interest in stocks, both in what investors are saying and doing.

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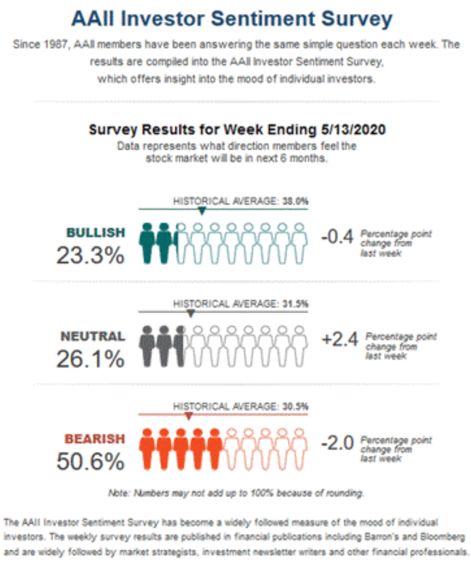
Sentiment: No Love for Stocks

The latest Sentiment Survey of AAII members saw a 27.3-point gap in favor of the Bears, a very pessimistic historical level.



The exodus from stocks picked up more steam, per the latest data from ICI, as mutual and exchange traded fund investors resumed their long-running love-affair with bonds, even with all-time low interest rates.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	5/6/2020	4/29/2020	4/22/2020	4/15/2020	4/8/2020
Total Equity	-22,368	-19,551	-9,475	4,677	6,461
Domestic	-15,840	-12,744	-1,542	8,937	8,504
World	-6,528	-6,807	-7,933	-4,261	-2,043
Hybrid	-774	-2,314	-507	4,853	-2,655
Total Bond	18,074	6,379	9,647	6,111	-10,526
Taxable	17,681	8,135	9,094	4,797	-7,623
Municipal	392	-1,756	553	1,314	-2,903
Commodity	1,616	1,692	4,815	4,012	2,192
Total	-3,453	-13,794	4,480	19,652	-4,528

Source: Investment Company Institute

And, we continue to see bizarre behavior in the daily market gyrations, which should remind us that stock prices seldom reflect fair value of the businesses they represent. Case in point was trading last week in shares of investment management services giant **BlackRock** (BLK – $513.73).

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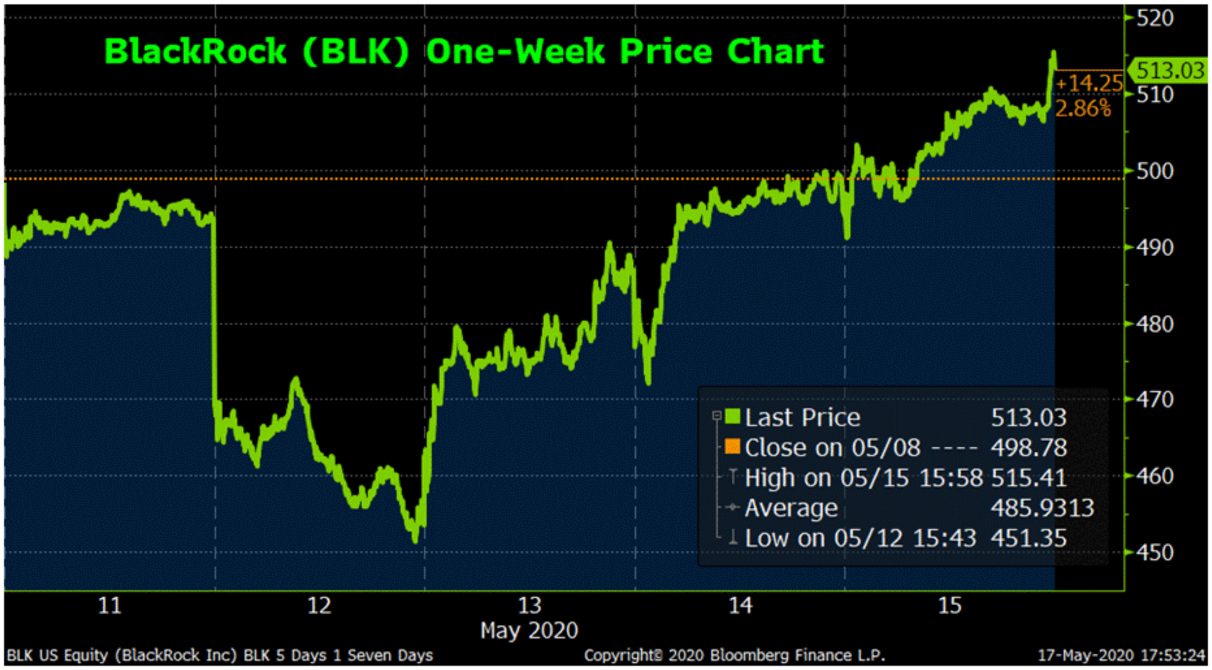
THE PRUDENT SPECULATOR
BLK – Not Exactly an Efficient Market



On 05.11.20, regional banking giant **PNC Financial Services** (PNC – $97.25) announced that it was selling nearly all of its roughly 22.4% ownership stake in BlackRock that was originally purchased back in 1995 for a relative pittance compared to that days closing value in the $17 billion range. Not surprisingly, perhaps, even though BlackRock itself had agreed to buy $1.1 billion of its stock as part of a massive secondary offering of 31.6 million shares, BLK plunged in trading on 05.12.20, hitting a low of $451, down from the $499 quotation at which the stock began the trading week.

Obviously, it isn't easy to sell close to 32 million shares all at once, while there was some preferred stock in the mix as well, but PNC took a big haircut in getting the deal done as on 5.15.20 it was announced that the block fetched only $420 per share. Those BlackRock buyers would appear to have picked themselves up one heck of a bargain. After all, BLK soared over the balance of the week to end trading at $513.03, more than 13% above the Tuesday low and more than 22% above the consolidated offering price, noting that BLK paid $414.96 for the 2.7 million shares it repurchased.

One moral to this story for investors in general is that stampeding to the exits can be an expensive proposition. We remain happy owners of BLK for an increased $590 Target Price.

We have lowered our Target Price for PNC to $155, however, even as we respect why management chose to make the sale. PNC CEO William S. Demchak explained, "BlackRock's long track record of strong performance and growth has created significant value since PNC acquired our stake in the company. As good stewards of shareholder capital, we have consistently reviewed options to unlock the value of our investment. We feel the time is now right to do just that, realizing a substantial return on our investment, significantly enhancing our already strong balance sheet and liquidity, and leaving PNC very well-positioned to take advantage of potential investment opportunities that history has shown can arise in disrupted markets."

There was always going to be a high price to exit the BlackRock ownership, so we like that PNC shares our view that the opportunities today are plentiful in the banking sector. We would expect PNC to soon go shopping, but management may feel like a kid in the candy store, given that the S&P Regional Bank index is down more than 44% this year.

Stock Updates

Q1 earnings reporting season is winding down, but Jason Clark, Chris Quigley and Zach Tart look at seven of our companies that posted quarterly results or had updates out last week. Not surprisingly, our work has had to shift toward financial liquidity and business viability, versus the usual focus on price-related financial metrics. Readers should keep in mind 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/. We are also in the process of posting an updated Target Price listing to our website, theprudentspeculator.com.

Insurer and financial services firm **Allianz SE** (ALIZY – $15.93), which recently changed tickers from AZSEY, earned $0.38 per share in fiscal Q1 2020 (vs. $0.49 est.). AZSEY had revenue of $46.9 billion (vs. $44.5 billion est.). Shares dropped 3% after the report, and have skidded 29% this year, as shareholders and management try to parse the future effects of COVID-19 on the asset management and insurance businesses.

CFO Giulio Terzariol commented, "What happened in Q1 is not Allianz-related. A lot of retail investors went to the sideline. And we also expect that eventually they are going to come back. So stability has been definitely there as we went into the second quarter. On the market development, there was a big swing in the month of March. Net the position, the loss in assets under management between market and FX was about EUR 80 billion-plus. I think we recovered already EUR 40 billion, even a little bit more in the month of April…Revenue is up, and that's because of the development of our Asset Management operations being overall compared to 1 year ago…coming from PIMCO. Bottom line, good results for the Q1, clearly, some headwinds at the end of March. But I would also say there is stability coming through. And the starting point I would say, is overall pretty, pretty solid for Asset Management."

Mr. Terzariol closed, "We are working very diligently on making sure that we are — we can increase our productivity. So clearly, as we do that, you see also restructuring expenses below the line. And then on the tax side, there was a positive effect due to the United States. Clearly, it was a challenging quarter, but the performance is robust. I'd just like to repeat the underlying performance in P&C when you look at the combined ratio is actually pretty good and also on track to achieve our objective for 2021. The expense ratio is down, so that's also a good sign. On the Life side, yes, there was market volatility, but the operating profit is still very sizable at EUR 800 million. And also, the new business margin is resilient, 2.7%. On the Asset Management side, we have very good operating profit. Sure, some headwinds coming into the end of the quarter, but also stability as we go into the second quarter. And then on the solvency ratio, the solvency ratio at 190% is a good solvency ratio and the excess capital of EUR 37 billion is a — that's also a way to look at the capital situation. I think it's a pretty big number. And so all in all, when you just look at the performance, both from an IFRS point of view and also our capital situation or our ability to make distribution to our shareholders, I think that's — even in a challenging environment, we have delivered good results."

ALIZY withdrew its 2020 operating income outlook on April 30, and the Board of Directors expects to offer a revised operating profit estimate "upon completion of revised planning." As was announced on February 21, Allianz will pay its annual dividend on May 29, which will be $0.715 this year. Management expects to continue to pay its dividend, though it must also satisfy regulatory restrictions in different countries. With its 2020 payment passing muster in most jurisdictions, the company has a relatively long time to figure things out for 2021. We like that Allianz 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 9 times estimated earnings. Our Target Price now stands at $28.

Honda Motor (HMC – $22.94) turned in a worse-than-expected fiscal fourth quarter loss of $0.16 per share on revenue of $31.7 billion. The motorcycle, automobile and power products company earned $2.40 on $137.4 billion of revenue for the full fiscal year 2020. The stock sank nearly 5% on the news, with auto sales some 20% lower than Q4 of the prior year, even as the motorcycle unit saw strong 13% margins in January through March.

Notwithstanding virus impacts, operating profit might have tripled due to the implementation of aggressive cost-cutting measures the firm announced in May 2019. Moreover, the trend appears positive, as U.S. plants and offices reopened on May 11 and April orders in China rose year-over-year, although cheap gas in the U.S. could make Honda's car lineup slightly less attractive than alternative brands with a focus on pickup trucks. Management, not surprisingly, chose not to provide guidance given uncertainty amid the current pandemic.

Looking ahead we like the strong balance sheet, with no debt maturing before 2023. Instead of competing in every category, Honda remains focused on controlling costs through fewer trim offerings and common size vehicle platforms. HMC shares trade at 53% of book value and the net dividend yield stands around 4%. We continue to like the geographically diverse revenue stream, exposure to emerging markets (China and India) and prudent financial position. Our Target Price has been trimmed to $31.

German letter and parcel carrier **Deutsche Post AG** (DPSGY – $29.11) posted adjusted earnings per share of $0.27, versus the $0.43 estimate, in fiscal Q1 2020. DPSGY had total revenue of $17.1 billion, versus the $16.5 billion estimate. Shares rose modestly following the report, as consensus forecasts were not always reflecting the coronavirus headwinds, but the stock remains about 20% lower this year, despite having made a nice recovery since the low on March 17.

CFO Melanie Kreis commented on the impacts of COVID-19, "The mail volume, particularly the direct mailings, is declining. First-class mail is still very okay. But of course, not surprisingly, people, if their stores are closed, they don't advertise. The opposite is visible on parcel. If people can't buy on high street, they buy online. It took a couple of weeks until the people really changed. Not surprisingly, the first 2 or 3 weeks, people were at home watching more of the media, what might happen. And after 3 weeks, they normalized somehow and said, okay, now I have to fulfill my needs, I buy now online instead of offline."

Ms. Kreis continued, "In Europe, you see first signs of recovery, following a pattern, a little bit slower than China, less sharp, but what we can observe is that, that is probably a similar pattern, as we said already before. And Americas, we believe will follow next. I think we have our strong footprint across the divisions. We are definitely benefiting from B2C, and of course, we have a very solid balance sheet with good liquidity. The measures are clear. Of course, we focus, first on all, on people, then our service. But nevertheless, we have, of course, stopped spending discretionary spend. But we have so far weathered the storm quite well by just doing a hiring freeze. We believe that the offer of lowering is also a good concept which has Germany embedded for, and some other European countries for quite some time to keep people on board, prepares you well for after the crisis."

The near future remains murky for DPSGY, along with virtually all other cargo and parcel carriers, but the longer-term outlook remains intact. While COVID-19 was not the catalyst we had in mind to push consumer behavior towards online retailing in Europe, it seems likely to stick around, at least partially. Cargo rates have jumped and the airplanes are flying fuller than ever since passenger belly capacity dried up almost overnight. While the outbreak in Europe continues, we think that life will eventually return to quasi-normal and folks will resume usual commerce, perhaps with a greater appreciation for online. Certainly, macroeconomic weakness will continue to have an effect on shipments and mail, but we expect that trend to reverse as the continent opens back up. The shares now sport a net trailing yield of 4.3% and trade for less than 15 times estimated earnings and for less than 55% of projected sales, while offering our broadly diversified portfolios unique European exposure. Our Target Price for DPSGY is now $50.

Shares of **Takeda Pharmaceuticals** (TAK – $17.47) were up nearly 6% Wednesday morning as the company reported fiscal year-end financial results for the period that ended in March. The Japanese drug maker posted operating earnings of roughly $0.26 per share on revenue of some $30 billion. Takeda saw solid growth in 4 of its 5 major business areas (which represent almost 80% of sales), with rare diseases the only group not showing growth in 2019. Bottom line results should see substantial improvement going forward as management expects operating profit of more than $3.3 billion, or more than $1.00 per U.S.-traded share.

CEO Christophe Weber commented, "When it comes to the COVID-19 crisis, we have been acting on it very early on in January. We have been fortunate to have in-house infectious disease experts and epidemiologists and public health experts. So we have really looked at keeping our employees safe, at the same time, to maintain our business continuity, especially on the supply.

And we have had no supply disruption, and we don't expect supply disruption. And on the other hand, we are working very hard to develop potential therapies against the COVID-19, both within our pipeline as well as within our plasma-derived therapy. And we are developing an hyperimmune globulin, and we are progressing fast on that. And we have been part of the creation of an alliance in order to do it faster and at a bigger scale."

He continued, "So for us, it's a — it has been a huge year, and it puts us in a very strong position in 2020 and beyond because we are also benefiting from the R&D transformation that we initiated back in 2015. And we are starting to really see concretely the pipeline that we will benefit from with a Wave 1 product, first 12 product that we could launch between now and 2024, and then the Wave 2 product, which are — and they are all products which are life-saving products. So very pleased with where we are. Of course, we are dealing with a crisis never seen before. We are confident about our guidance. We think that our portfolio of product is quite resilient because it's — most of our medicines are life-saving medicines, and they are not dependent on surgery or elective procedures. So I think even though the health care system has been paralyzed in many countries, we have not seen a huge impact on the prescription of our product because they are life-saving medicines."

Management appears to be following their game plan of cost cuts and divestitures, with these actions helping to increase operating margins from the low 20s before the Shire merger a year ago to just under 30% now. We like the global footprint and stable of premier franchises that Shire offers, although we continue to be mindful of the hefty debt load taken on to acquire the firm. TAK shares yield 3.4% and we've adjusted our Target Price to $27.

Japanese telecommunications company **Nippon Telegraph and Telephone** (NTTYY – $22.18) reported last week that it earned $0.15 per share in Q4 of fiscal 2020, bringing earnings per year for the full year to $2.13. Q4 and full-year revenue was $27.9 billion and $109.5 billion, respectively. Net income grew 7%, while revenue grew 2% year-over-year. Japanese shares are down around 14.5% year-to-date, while our ADR position has benefitted from a modestly strengthening yen vs. the U.S. dollar, putting NTTYY down close to 12% on the year. We estimate that management reduced share count by a low-single-digit rate last year. In addition, management has stated its intention to raise the dividend by nearly 5% in 2020.

Facing headwinds on its overseas businesses, Nippon has written down some of its assets in markets outside of Japan. But management says that networks are holding up amid the COVID-19 health pandemic that has increased fixed communications service traffic by 50% to 60% during working hours, as customers work out of their homes. The company has taken measures to reduce its own costs through reductions in business hours at stores and call centers, but is offering support by providing free installation and provision of cloud and online learning solutions for students and educators.

While we don't expect NTTYY to escape the negative effects of policies related to the health pandemic, the company should benefit from the current remote environment. In the intermediate-to-long term, we appreciate the firm's exposure to trends in 5G, cloud and increased data transmission. Shares trade at 9.6 times fiscal 2021 earnings estimates and sport a net yield of 3.4%. Our Target Price remains $33.

Communications equipment firm **Cisco Systems** (CSCO – $44.27) reported earnings per share of $0.79, versus the $0.69 estimate, in fiscal Q3 2020. CSCO had sales of $12.0 billion (vs. $11.7 billion est.). Since the release, shares have gained 5.5% due to the company's better-than-expected report for the quarter and analyst enthusiasm given the broadly awful macroeconomic environment.

CEO Chuck Robbins explained, "We currently have 95% of our global workforce working from home, which was a seamless transition for us as we already had a flexible work policy. And we build the technologies that allow organizations to stay connected, secure and productive. During the crisis, many of our customers and partners have been under enormous pressure as they face cash flow challenges. This is why we introduced a variety of free offers and trials for our Webex and security technologies as they dramatically shifted entire workforces to be remote. In addition, we announced $2.5 billion in financing with a new Business Resiliency Program through Cisco Capital to offer financial flexibility and support their business continuity. This will help customers and partners access the technology they need now, invest for recovery and defer most of the payments until early 2021."

"Despite the challenging environment we are all operating in, we delivered a solid quarter and financial performance in the midst of the greatest financial crisis of our lifetime. While we are not immune to the impacts of the global pandemic, we believe our underlying business fundamentals and financial position remains strong. As we look at the quarter, it very much reflected the journey of the pandemic. In March, we were performing ahead of our expectations as companies focused on building resiliency in their IT environments. Then in April, we began to see a slowdown across the business as countries across the world were locked down," continued Mr. Robbins. "This crisis has highlighted the importance of having highly resilient, globally scalable infrastructure technologies to keep the world running, and this is what we build. We are providing innovative solutions that help our customers support business continuity, drive productivity and ensure a highly secure work environment. We believe we will emerge from this crisis stronger than before. With our accelerated innovation cycle, refreshed portfolio and significant progress on our shift to more software and subscriptions, we are in a better position today than in past times of uncertainty. Our confidence is further supported by our strong balance sheet to invest for the future and our proven ability to execute no matter the environment."

While Cisco has had ups and downs over the last couple of years, we think that it is well-positioned for a prolonged work-at-home environment, both in terms of the company's setup (which Mr. Robbins stated) and being able to offer work-from-home hardware and software to enterprises that need to scale their infrastructure quickly. In addition to the valuable products CSCO has to help those working from home, it also has partnerships with Amazon (AWS), Microsoft (Azure) and Alphabet (Google Cloud). These partnerships give CSCO the ability to offer multi-cloud setups that work together.

Our belief is that shares are still inexpensive, with forward earnings projections of at least $3.12 each of the next three years, a forward P/E ratio near 15 and a solid 3.3% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been bumped up to $60.

Shares of **NortonLifeLock** (NLOK – $20.02) fell in price by nearly 6% last week, even as the internet security firm posted what management described as better-than-expected fiscal Q4 2020 financial results. NLOK announced that operational and non-GAAP EPS came in at $0.26, while revenue for the period totaled $614 million. NLOK added 46,000 customers sequentially in the quarter, bringing the total to 20.2 million, and average revenue per user ticked up to $9.07, versus $8.83 a year prior and $8.99 in the previous quarter. Annual customer retention was reported to be 85%.

"In only our second quarter as NortonLifeLock, we drove better than expected results on both the top and bottom lines as we turned our focus to driving sustainable growth. With consumer bookings up 4% year-over-year and another quarter of sequential customer growth, consumers are seeing the value we provide in protecting their digital lives as they live more and more online," said CEO Vincent Pilette. "I am extremely proud of how we supported our customers during this COVID-19 crisis and how we are laying the foundation for long term growth."

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NLOK – COVID-19 Not a Big Headwind

We believe that Norton's prospects in data security remain relatively bright, and we continued to be impressed with management's ability to drive down operating costs. While the COVID-19 pandemic has created a lot of havoc for most companies, NLOK might be a beneficiary as individuals are seeking online protection as the world rapidly has become more digitized. With all things considered, we have revised our Target Price upward to $24.