Market Commentary Monday, May 25, 2020

May 25, 2020

EXECUTIVE SUMMARY

Week in Review – Big Bounce on Monday
COVID-19 – "Promising" Moderna Vaccine News; Death Toll Rate Slowing; Economies Reopening
Econ News – Less Worse Data
Clarida Speaks – Fed Vice-Chair's Current Economic Situation and Outlook
Value "Buy" Signal – Recession Troughs and Subsequent Equity Returns
2020 Perspective – Average Stock Still Down Significantly, Profit Growth Likely in 2021 & Interest Rates Have Plunged
Patience – The Longer the Hold the Less Risky Stocks Become
Stock News – Updates on KSS, FL, LOW, TGT, WMT, SFL, MCK, MDT, DE & RCL

Market Review

With a massive rally on Monday providing all the week's gains and then some, at least for Value stocks, it was a very good five-days of trading for the U.S. equity markets. Indeed, the Russell 3000 Value indexed climbed 4.37%, compared to a 3.37% advance for the Russell 3000 Growth index and a 3.27% increase for the S&P 500.

Not surprisingly, given that COVID-19 news is the primary driver of market movements these days,…

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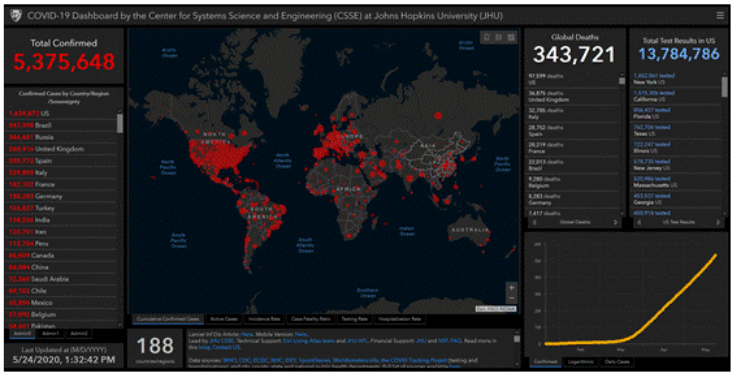
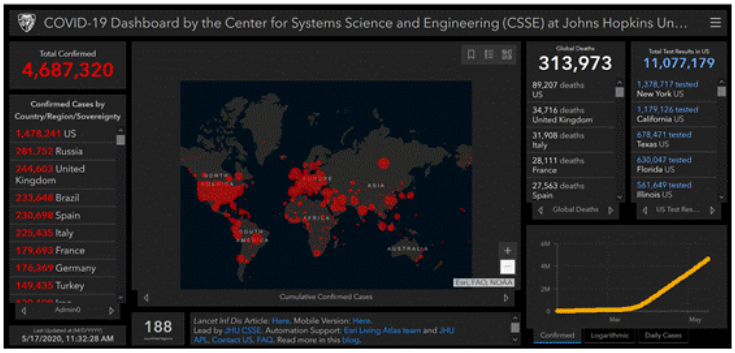
THE PRUDENT SPECULATOR
Slowing COVID-19 Global Spread





Covid-19 confirmed cases and deaths continued to rise in the latest week, with the U.S. now up to nearly 100,000 fatalities and many worried that the counts will accelerate as economies around the world gradually reopen for business. Of course, the so-called "curve" has flattened, with the global mortality increase over the last seven days equaling 9.5%, down from 11.1% the week prior.

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

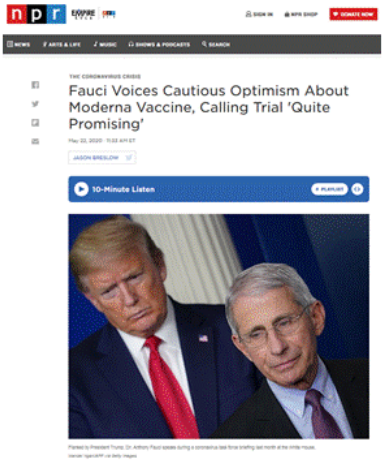
…the gradual reopening of economies across the U.S. and around the globe played a role in the equity market rebound, though the primary catalyst for the buying interest in stocks was news from biotech concern Moderna that its messenger-RNA COVID-19 vaccine had early success in 45 patients in an early trial. "These interim Phase 1 data, while early, demonstrate that vaccination with mRNA-1273 elicits an immune response of the magnitude caused by natural infection starting with a dose as low as 25 [micrograms]," said Moderna Chief Medical Officer Dr. Tal Zak.

To be sure, there is a long way to go before mRNA-1273 might be proven to be the magic bullet to knock out COVID-19, and far more data needs to be released before the scientific community will become more enthused. Still, it was good to hear Dr. Anthony Fauci state, "Having looked at the data myself, it is really quite promising."

https://www.statnews.com/2020/05/19/vaccine-experts-say-moderna-didnt-produce-data-critical-to-assessing-covid-19-vaccine/

Several vaccine experts asked by STAT concluded that, based on the information made available by the Cambridge, Mass.-based company, there's really no way to know how impressive — or not — the vaccine may be.

While Moderna blitzed the media, it revealed very little information — and most of what it did disclose were words, not data. That's important: If you ask scientists to read a journal article, they will scour data tables, not corporate statements. With science, numbers speak much louder than words.



https://www.npr.org/sections/health-shots/2020/05/22/860638799/fauci-voices-cautious-optimism-about-moderna-vaccine-calling-trial-quite-promisi

Dr. Anthony Fauci expressed "cautious optimism" about the initial results from a coronavirus vaccine trial and said it remains "conceivable" that a vaccine for the deadly pathogen could be available by the end of the year.

But the company, which is developing the vaccine in collaboration with the National Institute of Allergy and Infectious Diseases, which Fauci leads, has yet to publish detailed results from the trial.

Addressing those concerns, Fauci said his team at the infectious disease institute is compiling full details from the trial but said, "Having looked at the data myself, it is really quite promising."

And, Moderna is not the only entity working on vaccines and therapeutics, though there is a long way to go before any sort of real success will be found. Of course, it was interesting to hear Oxford University's Jenner Institute director Adrian Hill say this weekend that testing for his group's rival vaccine is problematic in that he expects fewer than 50 of the 10,000 people who have volunteered for a trial of the vaccine to test positive. If they don't get at least 20 positive tests, the results may be useless as the number of daily new infections in the UK has fallen by almost two-thirds, not exactly bad news!

No doubt, while we would argue that there has been more good developments on the health front in terms of hospitalizations, deaths and pharmacological advances, we respect that there remains plenty of concern going forward, especially with the inevitable relaxing of social distancing as folks emerge from their lockdowns and the potential for a spike in additional COVID-19 cases.

However, from a wealth standpoint, we offer the reminder that the equity markets are always forward-looking, with investors always more concerned about more-complicated math. By this, we mean is the data getting better or worse – and how does that change compare to expectations? Obviously, nothing is ever black and white as folks will always have differing opinions and it is not difficult to argue both sides,…

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THE PRUDENT SPECULATOR
The Media – Two Sides to Every Story

"All the News That's Fit to Print" The New York Times Late Edition
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Another 2.4 Million Jobs Vanish, And Many May Be Gone Forever

By PATRICIA COHEN

Even as states begin to reopen for business, a further 2.4 million workers joined the nation's unemployment rolls last week, and there is growing concern among economists that many of the lost jobs are gone for good.

The Labor Department's report of new jobless claims, released Thursday, brought the total to 38.6 million since mid-March, when the coronavirus outbreak forced widespread shutdowns.

While workers and their employers have expressed optimism that most of the joblessness will be temporary, many who are studying the pandemic's impact are increasingly worried about the employment situation.

"I hate to say it, but this is going to take longer and look grimmer than we thought," Nicholas Bloom, an economist at Stanford University, said of the path to recovery.

Mr. Bloom is a co-author of an analysis that estimates 42 percent of recent layoffs will result in permanent job loss.

Some Analysts Forecast a Fundamental Shift

"Firms intend to hire these people back," he said, referring to a recent survey of businesses by the Federal Reserve Bank of Atlanta. "But we know from the past that these aspirations often don't turn out to be true."

The precariousness of the path ahead was underscored Thursday by the Federal Reserve chair, Jerome H. Powell. "We are now experiencing a whole new level of uncertainty, as questions only the virus can answer complicate the outlook," he said in remarks for delivery at an online forum.

The economy that does come back is likely to look quite different from the one that closed. If so-

Continued on Page A11

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Business, Job Market Show Slower Decline

By Paul Hannon And Sarah Chaney

U.S. and global business activity and labor markets suffered a little less in May than in prior months, offering signs that damage to the global economy from the coronavirus pandemic is easing but will require an extended time to overcome.

Surveys of purchasing managers showed private-sector activity in the U.S., Europe and Japan fell for the third straight month in May, despite the tentative reopening of many economies around the world.

In the U.S., workers filed another 2.4 million unemployment claims last week, continuing at historically high weekly levels but down significantly from a peak of nearly 7 million at the end of March. The Labor Department's report on unemployment benefits showed the number of people receiving benefits in the week ended May 9—a proxy for overall levels of unemployment—increased to 25.1 million from 22.5 million a week earlier. The surveys and claims figures pointed to continued job cuts and a rise in unemployment that will likely act as a drag on a recovery as households cut back on spending.

In the U.S., business activity fell at a less steep pace than before. IHS Markit said its index of manufacturing activity stood at 39.8 in May, up from 36.1 in April. A measure of activity in the U.S. services sector—representing the broadest segment of the economy—rose

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…with economic data out in the past week illustrating the point. Yes, the numbers looked at on their own were terrible, be they related to housing, the labor market,…

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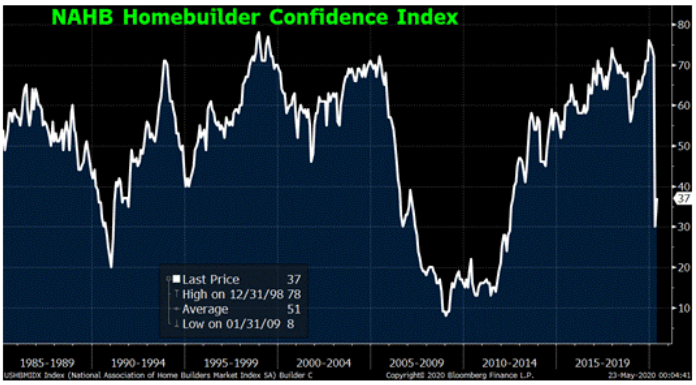
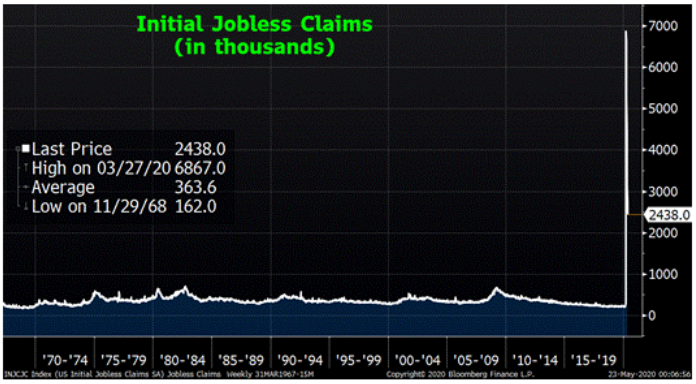
Terrible But Improving Econ Stats





The National Association of Home Builders' monthly confidence index for May rose sharply to a reading of 37, up from the eight-year-low figure of 30 in April, with both numbers still well above the lows of the Great Recession. The latest figures on first-time claims for jobless benefits declined from the prior week to a still devasting 2.4 million new filings, bringing the nine-week economic-shutdown-related total to 38 million.

…or manufacturing,…

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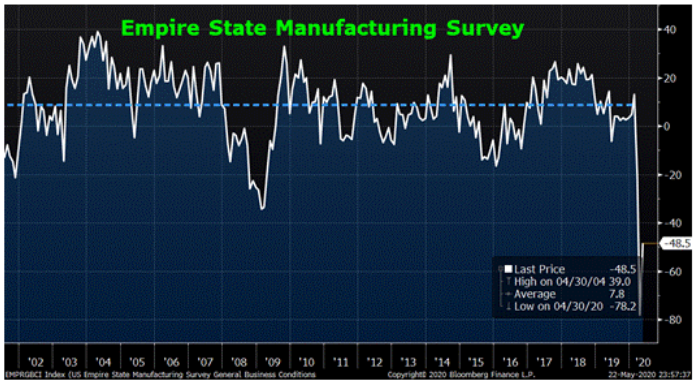
Manufacturing Data Less Worse



With the survey continuing to be crushed by COVID-19-related factory shutdowns, the Empire State gauge of manufacturing activity in the New York area for May rebounded mightily to a still-awful reading of -48.5, up from -78.2 in April. It was a similar, though-less dramatic bounce to -43.1 (vs. -56.6 in April) in the Philadelphia Fed's May measure of manufacturing activity in the mid-Atlantic region.

…but the trend was up, albeit from horrifically bad stats in the weeks or month prior.

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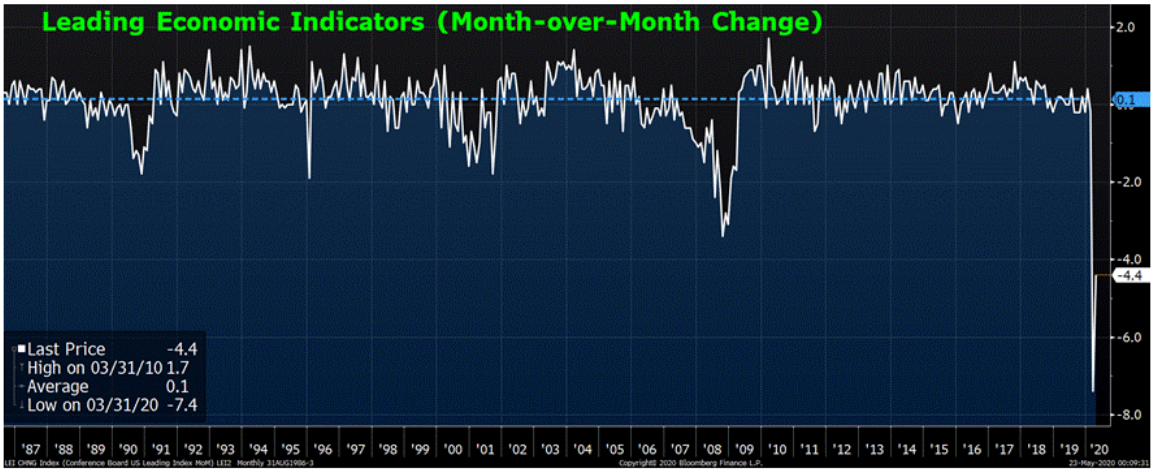
Forward-Looking April LEI = -4.4%

The forward-looking index of Leading Economic Indicators came in -4.4% on a month-over-month basis in April, rebounding from a March read of -7.4%. The Conference Board stated, "The erosion has been very widespread, except for stock prices and the interest rate spread which partially reflect the rapid and large response of the Federal Reserve to offset the pandemic's impact and support financial conditions."



That hardly means that happy days are here again, as the near-term hit to the U.S. economy in the current quarter will be "without modern precedent," to quote Federal Reserve Chair Jerome H. Powell,…

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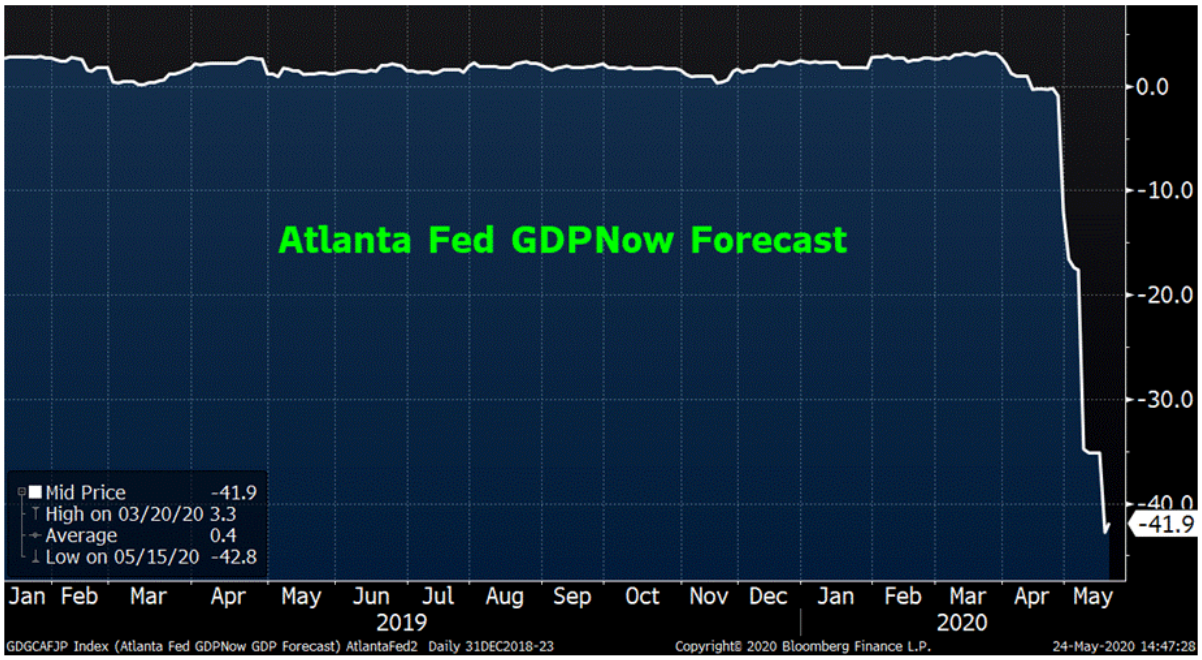
THE PRUDENT SPECULATOR
Monumentally Bad Q2 GDP Now Forecast

While the estimate for the magnitude of the contraction has come down a tad, the Atlanta Fed's projection for Q2 GDP growth is abysmal.



…with Fed Vice Chair Richard H. Clarida having the following to say this past Wednesday:

The coronavirus pandemic poses the most serious threat to maximum employment and, potentially, to price stability that the United States has faced in our lifetimes. There is much that policymakers—and epidemiologists—simply do not know right now about the potential course that the virus, and thus the economy, will take. But there is one thing that I am certain about: The Federal Reserve will continue to act forcefully, proactively, and aggressively as we deploy our toolkit—including our balance sheet, forward guidance, and lending facilities—to provide critical support to the economy during this challenging time and to do all we can to make sure that the recovery from this downturn, once it commences, is as robust as possible.

Fed Vice Chair Richard H. Clarida: 5.21.20

Current Economic Situation and Outlook

While the coronavirus (COVID-19) pandemic has taken a tragic human toll measured in terms of lives lost and suffering inflicted, as a direct result of the necessary public health policies put in place to mitigate and control the spread of the virus, the pandemic has also inflicted a heavy toll on the levels of activity and employment in the U.S. economy. Real gross domestic product (GDP) declined at a 4.8% annual rate in the first quarter of the year and will almost surely continue to contract at an unprecedented pace in the second quarter. The unemployment rate, which was at a 50-year low of 3.5% as recently as February, surged in April by more than 10 percentage points to 14.7%, an 80-year high, and it is likely to rise further in May. To put the numbers in some context, more jobs were lost in March and April of this year than had been created in the previous nine years.

But while the economic news has been unremittingly awful in recent weeks, financial conditions since the middle of March have eased—and considerably so in many markets. I believe—and most outside observers agree—that this easing of financial conditions is, at least in part, a direct consequence of the actions the Federal Reserve took...While this easing of financial conditions is, of course, welcome, whether it proves to be durable will depend importantly on the course that the coronavirus contagion takes and the duration of the downturn that it causes. At a minimum, the easing of financial conditions is buying some time until the economy can begin to recover, growth resumes, and unemployment begins to fall.

As I speak to you today, there is extraordinary uncertainty about both the depth and the duration of the economic downturn. Because the course of the economy will depend on the course of the virus and the public health policies put in place to mitigate and contain it, there is an unusually wide range of scenarios for the evolution of the economy that could plausibly play out over the next several years. In my baseline view, while I do believe it will likely take some time for economic activity and the labor market to fully recover from the pandemic shock, I do project right now that the economy will begin to grow and that the unemployment rate will begin to decline starting in the second half of this year. In terms of inflation, my projection is for the COVID-19 contagion shock to be disinflationary, not inflationary, and the data we are seeing so far are consistent with this projection. For example, core CPI (consumer price inflation) prices fell 0.45% in April, the largest monthly decrease since the beginning of the series in 1957. While the COVID-19 shock is disrupting both aggregate demand and supply, the net effect, I believe, will be for aggregate demand to decline relative to aggregate supply, both in the near term and over the medium term. If so, this decrease will put downward pressure on core inflation, which was already running somewhat below our 2% objective when the downturn began in March.

That said, both Mr. Powell and Mr. Clarida remain confident that there will be a significant recovery, even as the strength of the bounceback is highly uncertain and some of the economic numbers will get worse before they get better. White House senior economic advisor Kevin Hassett conceded on Sunday that the unemployment rate for May could be “north of 20%” and that June could be even worse, with it even possible that the jobless figure could still be in the double-digit rates by the election. However, Mr. Hassett was quick to add that by November, “All the signs of economic recovery are going to be raging everywhere.”

U.S. Recession Trough (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Recession Trough Date	1 Year Post S&P 500 TR	1 Year Post FF Value TR	1 Year Post FF Growth TR	3 Year Post S&P 500 TR	3 Year Post FF Value TR	3 Year Post FF Growth TR	5 Year Post S&P 500 TR	5 Year Post FF Value TR	5 Year Post FF Growth TR
Mar-33	81.5%	88.7%	82.9%	155.7%	135.3%	169.1%	62.4%	69.5%	96.2%
Jun-38	-1.7%	-14.5%	2.7%	0.8%	4.6%	14.5%	43.9%	129.3%	65.5%
Oct-45	-7.2%	-2.2%	-6.8%	14.7%	26.6%	-1.3%	64.8%	76.2%	38.5%
Oct-49	35.1%	43.8%	29.9%	92.8%	96.5%	66.3%	177.8%	174.6%	131.2%
May-54	36.1%	60.2%	34.4%	83.7%	95.5%	69.4%	145.2%	200.3%	143.0%
Apr-58	37.2%	61.0%	51.4%	66.4%	94.4%	86.4%	89.9%	128.4%	84.1%
Feb-61	13.6%	16.9%	8.6%	35.2%	49.1%	12.1%	68.4%	137.0%	55.6%
Nov-70	11.2%	11.0%	20.5%	20.6%	13.5%	-0.7%	25.1%	44.4%	1.5%
Mar-75	28.3%	51.5%	31.3%	22.1%	98.6%	44.4%	55.6%	157.8%	96.9%
Jul-80	13.0%	22.9%	22.8%	56.1%	113.6%	69.7%	100.5%	207.7%	75.2%
Nov-82	25.6%	39.8%	21.1%	66.8%	99.7%	36.4%	103.0%	123.9%	38.2%
Mar-91	11.0%	25.5%	16.7%	29.8%	73.2%	25.8%	98.0%	154.7%	82.9%
Nov-01	-16.5%	-11.9%	-18.5%	8.4%	39.8%	13.7%	34.3%	93.7%	33.5%
Jun-09	14.4%	25.5%	14.7%	57.7%	53.2%	62.3%	136.9%	158.2%	140.8%
Averages	**20.1%**	**29.9%**	**22.3%**	**50.8%**	**71.0%**	**47.7%**	**86.1%**	**132.6%**	**77.4%**

Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Certainly, there are no guarantees that history will repeat, but if would seem almost certain that overall U.S. GDP growth will be trending higher, albeit from a very low base, as we move into the second half of the year and we like how Value stocks like those that we have long championed have performed in such an environment. That is not to ignore the naysayers who suggest that the rebound in equities since the March 23 lows has been overdone, but the average stock is still down significantly on the year, with sectors like Energy, Financials and Industrials off more than 20% as of this writing.

2020 Market of Stocks - YTD Total Return as of 5.22.20

Start	End	Perf	Instrument	Start	End	Perf	Instrument
12/31/2019	5/22/2020	-17.93%	Russell 3000 Average Stock	12/31/2019	5/22/2020	-16.10%	S&P 500 Average Stocks
12/31/2019	5/22/2020	-13.40%	Dow Jones Industrial Average	12/31/2019	5/22/2020	-2.85%	S&P 500 Pure Growth Index
12/31/2019	5/22/2020	4.42%	NASDAQ Composite Index	12/31/2019	5/22/2020	-34.54%	S&P 500 Pure Value Index
12/31/2019	5/22/2020	-7.79%	Russell 1000 Index	12/31/2019	5/22/2020	-0.38%	S&P 500 Communication Services
12/31/2019	5/22/2020	-18.30%	Russell 2000 Index	12/31/2019	5/22/2020	0.04%	S&P 500 Consumer Discretionary
12/31/2019	5/22/2020	-8.47%	Russell 3000 Index	12/31/2019	5/22/2020	-8.15%	S&P 500 Consumer Staples Secto
12/31/2019	5/22/2020	-7.78%	S&P 500 Index	12/31/2019	5/22/2020	-35.08%	S&P 500 Energy Sector GICS Lev
12/31/2019	5/22/2020	3.01%	Russell 1000 Growth Index	12/31/2019	5/22/2020	-28.16%	S&P 500 Financials Sector GICS
12/31/2019	5/22/2020	-19.27%	Russell 1000 Value Index	12/31/2019	5/22/2020	-1.75%	S&P 500 Health Care Sector GIC
12/31/2019	5/22/2020	-8.31%	Russell 2000 Growth Index	12/31/2019	5/22/2020	-21.14%	S&P 500 Industrials Sector GIC
12/31/2019	5/22/2020	-28.73%	Russell 2000 Value Index	12/31/2019	5/22/2020	5.78%	S&P 500 Information Technology
12/31/2019	5/22/2020	2.28%	Russell 3000 Growth Index	12/31/2019	5/22/2020	-13.11%	S&P 500 Materials Sector GICS
12/31/2019	5/22/2020	-19.90%	Russell 3000 Value Index	12/31/2019	5/22/2020	-14.85%	S&P 500 Real Estate Sector GIC
12/31/2019	5/22/2020	1.61%	S&P 500 Growth Index	12/31/2019	5/22/2020	-11.84%	S&P 500 Utilities Sector GICS
12/31/2019	5/22/2020	-18.37%	S&P 500 Value Index				

Source: Bloomberg

Further, while corporate profits undoubtedly will be hit hard in the near-term, we are investing for the long haul, with a three-to-five-year-or-longer time horizon, so we would expect considerable improvement in earnings in 2021 and beyond, even as we understand that analysts, including the good folks at Standard & Poor's, are often overzealous in their estimates.

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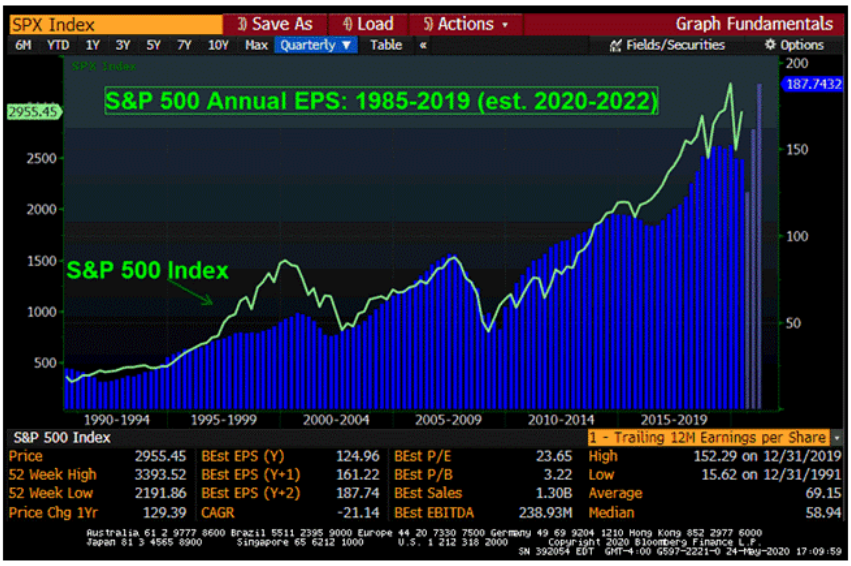
EPS to Plunge in '20 and Rebound in '21

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		
Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.65	$162.53
9/30/2021	$42.34	$153.95
6/30/2021	$38.36	$142.84
3/31/2021	$37.18	$127.86
12/31/2020	$36.07	$110.62
9/30/2020	$31.23	$113.73
6/30/2020	$23.38	$122.31
3/31/2020	$19.94	$139.07
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 5.21.20

Equally important, we might add, is the interest rate picture as the decline in yields on fixed income adds to the appeal of stocks, especially those of dividend-paying companies.

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Interest Rates Very Supportive of Stocks

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's very rich earnings yield (4.87%), and that the S&P dividend yield (2.05%) dwarfs the 10-Year Treasury's (0.66%).

Yes, we understand that TINA (There Is No Alternative) may not be a compelling argument to some, but there is a big difference in how folks view their investment choices when the yield on a prominent money-market fund resides below 0.3% today, compared to 6.0% back in March 2000 and 5.0% in September 2007, both points at which the S&P 500 hit highs.

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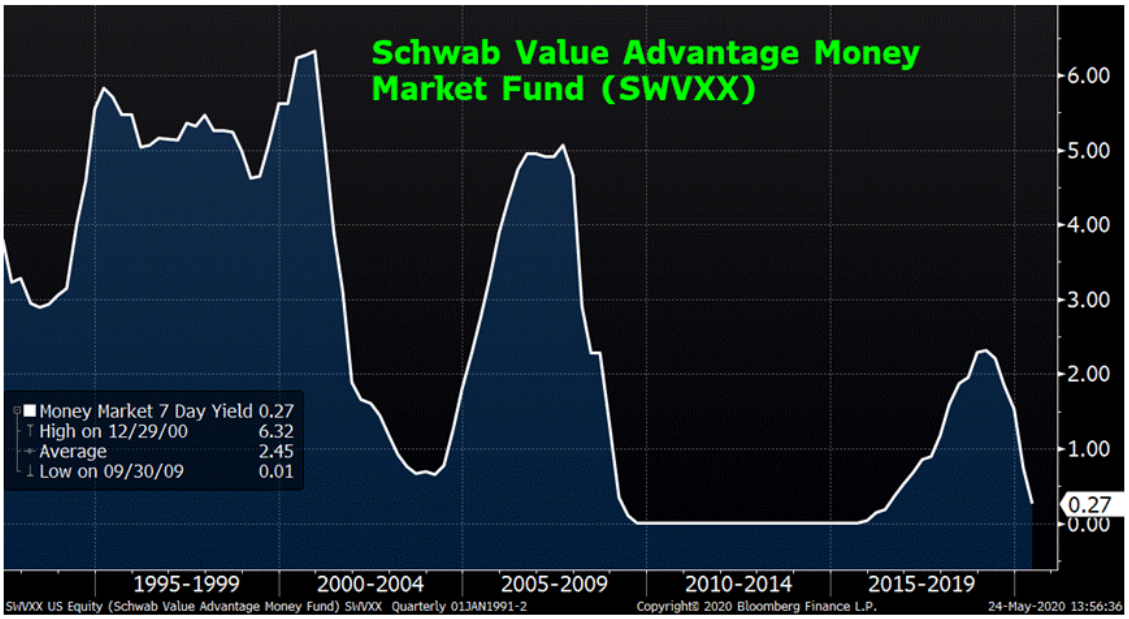
Money Market Fund Yields Over Time

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered from 1.53% at the start of 2019 to 0.27% today, similar but larger than the drop from 1.38% on 12.31.08 to 0.34% on 3.31.98.



And, for those sitting in cash in their brokerage accounts, or even in some government security money market funds, the yield these days is generally 0.01%, whereby money will double in 6,932 years! True, stock prices are volatile, and we know that China also is a major market wildcard these days, but the historical odds clearly favor equities when returns are put into competition with even a “high” yielding security like the 30-year U.S. Treasury and its 1.37% current yield.

The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is nice to see the odds of Value Stocks and Dividend Payers outperforming long-term U.S. Government bonds increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >1.37%	Count <=1.37%	Percent >1.37%
1 Month	696	418	62.5%
3 Months	738	374	66.4%
6 Months	772	337	69.6%
1 Year	790	313	71.6%
2 Year	890	201	81.6%
3 Year	932	147	86.4%
5 Year	928	127	88.0%
7 Year	986	45	95.6%
10 Year	959	36	96.4%
15 Year	929	6	99.4%
20 Year	875	0	100.0%

DIVIDEND PAYERS

	Count >1.37%	Count <=1.37%	Percent >1.37%
1 Month	694	420	62.3%
3 Months	749	363	67.4%
6 Months	784	325	70.7%
1 Year	816	287	74.0%
2 Year	906	185	83.0%
3 Year	902	177	83.6%
5 Year	937	118	88.8%
7 Year	973	58	94.4%
10 Year	950	45	95.5%
15 Year	919	16	98.3%
20 Year	875	0	100.0%

From 07.31.27 through 04.30.20. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Stock Updates

Q1 earnings reporting season is winding down, but Jason Clark, Chris Quigley and Zach Tart look at ten of our companies that posted quarterly results 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/.

Family-oriented department store operator **Kohl's** (KSS – $17.48) posted a loss of $3.20 per share in fiscal Q1 2021, compared to a (questionable) consensus estimate of a loss of $1.88. KSS had total revenue of $2.2 billion, versus the $2.2 billion estimate. Shares slipped 7.7% following the announcement, though they ended up down just 0.3% for the week. As was expected, store closures as a result of COVID-19 resulted in substantial difficulty in the quarter, despite the company undertaking a slew of cost cutting measures including furloughing 85,000 employees. Back in March, KSS suspended its share repurchases and dividend payment, providing an additional $650 million of liquidity on an annualized basis, while the company has also increased the available credit on a revolver and issued new debt.

“We entered the year in a strong financial position and our business was tracking to our expectations prior to the onset of the crisis. We immediately responded with actions to protect the health and safety of our associates and customers and to preserve our financial position. I am incredibly proud of how our associates stepped up to face this unprecedented challenge with speed and agility. Our actions to manage cash outflow and increase liquidity have been instrumental in enhancing our position to navigate this crisis, and we believe our history of prudent capital management will continue to serve us well,” explained CEO Michelle Gass.

Looking ahead, Ms. Gass commented, “Our financial performance, like many other retailers, will be materially impacted by COVID-19 in 2020. Our focus will remain on striking a balance between the short term and the long term, recognizing the decisions we make today can influence our long-term opportunity. We are confident that our strong fundamentals and financial discipline will enable us to not only navigate the short-term uncertainty but also position us to take advantage of unique market and customer opportunities in a post-COVID environment. Much of what has made Kohl’s the vibrant and resilient retailer it is today will make Kohl’s a stronger company in the future. We will maintain a clear and unwavering focus on providing families an unmatched brand portfolio at a great value and an easy and convenient experience. And we will leverage our strong foundation that has been built through significant and consistent capital investments in omnichannel technology in our stores…This has been an extraordinary period of time, and we’ve learned a great deal through this process about our business, our team, our agility and our perseverance. While we still face challenges ahead, we are a strong company and well positioned financially to emerge from this. To everyone listening on the call, we wish you and your families health and safety as we begin to resume some level of normalcy in our lives.”

It remains difficult to estimate the ongoing impact of the pandemic on retailers, even after local economies “reopen” and Kohl’s as of 5.19.20 was presently operating only half of its stores. The near term remaining uncertain, we think the long-term is meaningfully more positive. KSS management has worked hard to improve stores at virtually every level and the commitment to the dividend remains strong. Kohl’s stated in March, “The company remains committed to paying a dividend over the long-term and to the extent it makes a near-term change in its program due to the COVID-19 impact, it would seek to resume its approach following stabilization in the environment,” and CFO Jill Timm said that it remains the #2 priority behind investing in the business. At the end of the quarter, KSS had more than $2 billion of cash on hand plus $500 million in a revolver, and Ms. Timm added, “Importantly, our debt remains investment grade and we have no maturities until 2023.”

Earnings estimates are all over the map, but while analysts expect KSS to lose $2.68 per share in fiscal 2021, things are projected to improve quickly, with $1.71 in EPS in fiscal 2022 and $2.38 in fiscal 2023 the present mean analyst projection. With the shares trading near 10 times 2022 earnings and 7 times 2023 earnings, our Target Price on KSS now stands at $43.

Shares of **Foot Locker** (FL – $26.83) fell more than 8% Friday after the athletic footwear and apparel retailer reported fiscal Q1 2020 financial results. Despite the final-day selloff, it is worth noting that the stock was still up 5.5% for the full week. The Friday flee by investors was seemingly driven by very tough quarterly results, management not issuing forward guidance and

the company suspending the dividend. Revenue for the period came in at $1.18 billion, almost 11% below the consensus estimate of $1.32 billion, while adjusted EPS was a loss of $0.67, compared to the average forecast of a loss of $0.18. While digital comparable sales rose 14%, same-store comparable sales fell by more than 50% during the quarter.

CEO Richard Johnson explained, "Against the backdrop of the pandemic and our global store closures, our team has focused intently on controlling what we can in order to protect our business. We have taken full advantage of the investments we have made in technology in recent years in order to stay connected with our customers and serve them online, worked aggressively to protect our financial position and flexibility, and taken actions to ensure we are well positioned to drive our business forward. Today, thanks to the unwavering efforts of our team, we are in the early stages on our road to recovery. Our phased reopening of stores is underway, and our plan is to build, be back, and be better than before."

CFO Lauren Peters added, "As the severity of COVID-19's impact on the global retail industry became more evident, we took actions across our organization to control costs, bolster our financial position and increase our liquidity. We believe the operational and financial actions we have taken will enable us to create a safe environment in our stores and protect the health of our business to ensure that we emerge even stronger." Those actions included efforts to preserve cash and increase liquidity: borrowing $330 million under the company's $400 million credit facility; limiting capital expenditures to essential projects and reducing the full year capital expenditure forecast by 50% to $138 million; minimizing non-essential spending, including reductions in marketing, extending payment terms, limiting rent payments and reducing merchandise purchases; and reducing salaries and deferring incentive compensation for the CEO and senior executives.

FL's cash and cash equivalents ended the quarter at $1.01 billion, with debt on the balance sheet increasing to $451 million after the credit-line draw down. Despite what we believe to be one of the better balance sheets in retail, the company chose to "temporarily" suspend the cash dividend, though management indicated that it remains committed to returning capital to shareholders. Foot Locker had previously announced the suspension of its share repurchase program.

While the near-term is filled with stiff headwinds and uncertainties, we continue to believe that Foot Locker has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think longer-term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not reopen or may no longer be optimal in some geographic locations. Our Target Price for FL has been trimmed to $61.

Shares of **Lowe's Cos** (LOW – $122.25) jumped 8.5% last week, pushing the stock into the green on the year after the home improvement chain reported fiscal Q1 2021 financial results that were significantly better than expected. LOW said that it earned $1.77 per share in Q1,

shattering the consensus estimate of $1.29. Sales for the period of $19.7 billion topped forecasts by 7.6%, with same-store sales growth coming in at an impressive 11.2%, well above analyst projections calling for 4.1% growth. Adjusted operating margins improved a bit more than 2%, despite higher bonuses, benefits and other costs associated with COVID-19, which would seem to be transitory. Lowe's focus on the do-it-yourself customer really paid off during the period with much of the country home bound and having much more time to fix, upgrade and remodel their residences. E-commerce sales exploded during the quarter, but we note they were growing from a small base (approximately 5% of overall sales in 2019).

"In late February, we shifted our priorities in response to the COVID-19 pandemic, and immediately focused on how best to serve the needs of our communities during this unprecedented time. Our highest priority remains the health and safety of our associates and community, and we have demonstrated that commitment in the first quarter through an investment of $340 million, including support for healthcare workers and first responders," commented CEO Marvin R. Ellison.

Mr. Ellison added, "Our strong first quarter performance, which continues into May, also reflects the benefits of our retail fundamentals strategy, the improvement in our execution, and the resiliency of our home improvement business model. I am also pleased with our ability to pivot to serve increased online demand with Lowes.com sales increasing 80% in the quarter. To assist other retailers in operating safely in this exceptionally challenging environment, we shared our best practices with the Retail Industry Leaders Association and any other retailer who is interested."

Management said that given the uncertain economic outlook, the company raised $4 billion in senior unsecured notes and increased the capacity of its revolving credit facilities by $770 million. After repaying $500 million of fixed rate notes due 4.15.20, Lowe's now has $6 billion of cash and cash equivalents as well as $3 billion in undrawn capacity on its revolving credit facilities which will be available for any unanticipated liquidity needs.

During the quarter, LOW also decided to suspend share repurchases, and does not expect to repurchase any more shares this year beyond what was executed in Q1. The company repurchased 9.6 million shares for $947 million under its share repurchase program and paid $420 million in dividends in the first quarter.

We think that LOW is one of the few retailers for which the future looks a little brighter given the pandemic, and we like that the retailer is still in the midst of a compelling turnaround story. We see past changes in leadership, expense containment and cutting underperforming assets leaving more opportunity for building momentum in the quarters and years ahead. Of course, the superior relative performance of the stock this year has pushed the position size to elevated levels in our broadly diversified portfolios, so taking a little money off of the table could be in the near-term cards as other compelling opportunities come available in the Consumer Discretionary sector. For now, our Target Price has been boosted to $134.

General merchandise discount store chain **Target** (TGT – $117.49) reported earnings per share of $0.59, versus the $0.46 estimate, in fiscal Q1 2021. TGT had revenue of $19.4 billion, versus

the $18.7 billion estimate. Despite the big beat (in this environment), shares fell 2.9% following the announcement, as a lower capital expenditure estimate (less than $3 billion vs. $3.5 billion previously) and slipping margins weighted on investors' expectations for the future.

Target CEO Brian Cornell commented, "Over the last few years, we built a strategy and operating model that's designed to generate strong performance in a wide variety of environments, and the first quarter demonstrated the strength of that model. Unprecedented volatility within the quarter presented the most extreme test of our business and operations that I could have imagined, and in that environment, we drove industry-leading growth with a total comp sales increase of 10.8% and digital comp growth of more than 140%. As I reflect on all that's transpired since the quarter began in February, there were 2 key factors in our success: our strategy of positioning stores and fulfillment hubs and our unbelievable team. When guests began flocking to our stores to stock up, our team was ready. And when digital demand exploded as guests began to shelter in place, our teams have the tools, processes and capability to flex to meet that shift in demand."

"If there's one thing our team and operators have demonstrated, it's the ability to adapt to rapid change and continuing delivering outstanding service for our guests. It's at times like these that we can all see the benefit of a strong balance sheet and fundamentally sound business model. The financial strength gives us the flexibility to focus on what matters most, our guests and our team, giving us confidence that we'll emerge from this crisis as a stronger, more relevant retailer with an even higher level of affinity and trust among our guests," concluded Mr. Cornell.

"As we look ahead, we are focused on continuing to deliver for our guests and our team throughout the crisis while preparing to emerge strong and ready to play offense when our economy recovers. And we think the opportunities when that happens will be compelling. Unfortunately, this crisis will cause a lot of dislocation in multiple parts of the economy, including retail. As a result, we expect to have many potential opportunities to invest, including possibilities in real estate, brands, capabilities and obviously, in our existing strategic initiatives," said CFO Michael Fiddelke. "While we always monitor our short-term financial results and focus on strong execution, I think it's more important than ever for us to maintain a laser focus on the long term when I expect we could have unprecedented opportunities to create value for all of our stakeholders."

Target shares have held up reasonably well this year, given that much of the company's revenue is on discretionary items, at least more so than some of the company's competitors. Target's big digital ordering platform, including its ship-from-store model, performed well under extraordinary pressure, although supply chain limitations were the ultimate weak point, particularly as it relates to food items, cleaning agents and toilet paper. Of course, the current situation is unprecedented and many questions about consumer behavior remain unanswered. Yet we think that Target is well-positioned for most outcomes, given the success of small stores and ability to quickly pivot between in-store sales and online sales. Analysts now expect Target to post EPS of $5.00 per share in 2020 (nearest the $4.71 earned in 2018), while the projection for fiscal 2023 stands at $7.28. The company's yield remains intact at 2.3%. Our Target Price for TGT shares is currently $128, and we note that a trim also could be forthcoming, given other interesting Consumer Discretionary names.

Discount supermarket and superstore chain **Walmart** (WMT – $124.33) earned $1.18 per share in fiscal Q1 2021 (vs. $1.12 est.). WMT had sales of $134.6 billion (vs. $132.8 billion est.). Despite the excellent quarter, all things considered, shares fell 2.1% after management said that it expects some "significant operating profit pressure" in some international markets, as well as uncertainty related to the impact of COVID-19 on its business and global economy.

CEO Doug McMillon commented, "Given the amount of disruption, we and the rest of the world have faced in recent months, we developed a set of 5 priorities to guide our decision-making since the crisis began, and I'll use them to frame my comments. They are, one, support our associates that are serving on the front line; two, serve our customers that need access to food and critical supplies; three, help others, including the communities we serve, new associates looking for work, suppliers we partner with, those that lease space in our stores, plus the work of federal state and local governments; four, manage the short term well operationally and financially, including our cash position and inventory level; and five, drive our strategy forward, even as we navigate a crisis."

"The effect this virus is having around the world has made it clear that we all need to do everything they can to help each other and our communities get through this. At Walmart, we are blessed to have a unique set of assets and a strong business that puts us in a good position to support our associates and serve our customers, communities and shareholders." Mr. McMillon concluded.

In our previous commentaries, we wrote often that Amazon, Target and other big-box retailers were Walmart's biggest competition. We still believe that they are over the long term, yet in the nearer term, we think consumer spending and the general macroeconomic environment will have much more influence on the level of sales. Like Target, the importance of Walmart's online platform (curbside pickup and ship to home) will continue to grow, as social distancing guidelines are unlikely to vanish anytime soon, even as regions across the world open back up. We continue to like that WMT generates strong free cash flow and maintains a strong financial footing, while the company remains committed to returning capital to shareholders. Walmart has kept its dividend payments in place, with $0.54 per share expected to be paid in June, September and next January. Our Target Price now stands at $136, but high-quality WMT shares are actually up more than 4% on the year, so the position has grown larger in our accounts and a trim could occur as other stocks jockey for a slot in our portfolios.

Marine shipping concern **SFL Ltd.** (SFL – $9.55) reported earnings per share of $0.04 in Q1, almost 90% below the print from the quarter a year ago. The dramatic change over the prior year had to do with a non-cash impairment charge of $80 million for seven of the firm's handysize vessels and $13.6 million of unrealized losses on marketable securities. Gross charter hire revenue was $161 million, 90% which is from long-term charters and 10% from short-term charters with spot market exposure. The firm's backlog remains $3.6 billion, with fleet contract duration ranging from five to nearly eight years varying in accordance with vessel type. Adjusted EBTDA in the quarter was $120 million, a 3% decrease over the prior year, owing to higher voyage, operating, general and administrative costs. The firm continues to liquidate its position in Frontline Ltd with 1.4 million shares remaining and an average sale price for the 9.6 million shares divested thus far since October 2019 of nearly $11 per share.

On the impacts from the health pandemic, CEO Ole Hjertaker commented, "The COVID-19 pandemic has caused massive disruption in most transportation markets and for offshore assets. Many of our vessels trade regularly to Chinese ports, and we implemented already in January a robust emergency management plan with goals of ensuring the health and safety of our crew on board the vessels and onshore while maintaining our business operations as efficiently as possible. All crewing managers are following the guidance issued by the World Health Organization and the International Chamber of Shipping to ensure that the proper protocols are in place on board the vessels. We also host regular meetings with crewing managers in all our segments to discuss and handle any issues, in particular, challenging facing our crew and safe operations as they may arise. To date, issues have primarily related to crew transfers and also some delays at shipyards in connection with dry docking and scrubber retrofitting of vessels."

Given that over half of revenue is linked to containerships, we thought the following comment from Mr. Hjertaker notable, "Well, if you look at our charter portfolio, I believe, 85% — more than 85% of the backlog is linked to the 2 largest liner companies (Maersk & MSC)…What we have seen so far is that the liner companies have been able to maintain margins and also relatively, I would say, smaller impact on volume than many have expected as they have reported first quarter numbers. Going forward or through the rest of the year, I believe, most expect effective, call it, liftings of boxes to come down. But again, it's planned. And one of the mitigating factors that is for the line of companies here has been the fuel oil price drop, which means that if they've been able to maintain box rates at relatively similar levels, the net profit per box is much higher because the vessels spend less fuel. So there are some balancing factors. But obviously, container market is a reflection of world trade. So in the long run, of course, you will need world trade to recover and get back on the feet."

The stock is well off the recent lows, but shares are down roughly 34% year-to-date, due in large part to a negative market reaction to the announcement of a potential additional $100 million in common stock issuance over the next 36 months added to its long-running "at-the-market" share offering program. Still, we appreciate the stability management has built into an otherwise potentially volatile and unpredictable maritime shipping industry. The company's board did lower the dividend to $0.25 for the June payout, which as management claims was mostly a result of headwinds related to its relatively small offshore exposure. We remind that close to $16 per share in dividends have been paid over the past decade. Meantime, the firm will have more cash in its pocket to strengthen the balance sheet while opening the door for unique deals in the current volatile environment.

Despite the dividend reduction, shares sport a rich yield at 10.5% and trade for 1.1 times book value. Our Target Price for SFL is presently $14.

Shares of **McKesson** (MCK – $149.42) rose more than 9% last week after the drug distribution titan reported better-than-consensus fiscal Q4 2020 bottom-line results. MCK continues to benefit as demand is pulled forward due to COVID-19, as it turned in adjusted EPS of $4.27, roughly 4.5% ahead of expectations. Revenue in the period was $58.5 billion against forecasts of $55.6 billion. For the full fiscal year, McKesson posted adjusted EPS of $14.95 on $231 billion of revenue. In a period where most of corporate America has pulled or elected to forego earnings guidance, MCK expects adjusted EPS of $13.95 to $14.75 in fiscal 2021.

CEO Brian Taylor commented, "We have proven our resiliency and natural ability to lead during times of crisis, such as H1N1, SARS, the recession of '08, '09. I think the lessons we've learned and the expertise we've gained continue to serve us well. We operate from a position of financial strength. Our strong balance sheet, access to capital markets, strong credit ratings provide us great financial flexibility. Our fiscal 2020 results reinforce the operational momentum we're generating in our business, and we have repeatedly demonstrated our willingness and commitment to make the right, not always easy, but right decisions to best position the business for long-term growth. Despite the near-term challenges, we remain focused on executing against our priorities and investing in our strategic growth initiatives. The positive energy, dedication, commitment and togetherness of team McKesson is unmatched, and I do believe our future is bright."

While political and legal headwinds related to the national opioid debate are likely to return at some point and performance in the next quarter or two may soften as demand related to COVID-19 abates, the clouds have parted in the interim for McKesson. The business has demonstrated its important role in getting much needed medical supplies to their end user and we continue to expect the integration of acquisitions to help drive growth. MCK trades for 10.2 times expected fiscal 2021 earnings and yields 1.1%. Our Target Price has been hiked to $192.

Medtronic PLC (MDT – $94.72) saw its shares edge up slightly last week despite reporting fiscal Q4 2020 top- and bottom-line results that came in below expectations as the postponement of numerous medical procedures due to COVID-19 shelter-in-place orders took its toll. The medical device maker reported adjusted EPS of $0.58, compared to the consensus estimate of $0.74, and revenue of $6.0 billion also lagged average forecasts of $6.1 billion. The quarterly revenue decline was driven by drops in the cardiac rhythm management and heart failure business (down 38%), pain management (down 41%) and spine (down 32%). We would imagine that the current quarter will be tough, followed by stabilization and a return to growth in the subsequent quarters if the pattern of its business in China is any indication for Europe and North America. The Middle Kingdom saw procedures fall 46% in February and March, followed by slower declines of 21% in April and a high-teen percentage in May.

"It is important to acknowledge the incredible heroism, resolve and sacrifice of the frontline healthcare workers fighting the COVID-19 pandemic, as well as our employees who are supporting them," said CEO Geoff Martha. "This pandemic presented the world with an unprecedented challenge, which required an unprecedented response, including by our team at Medtronic. I'm extremely proud of the way our employees have risen to the occasion to help healthcare systems and workers, governments and NGOs, and for the way that they've continued to support their communities and families through this time."

Mr. Martha continued, "Our financial position remains strong, and we're differentially using our balance sheet during the pandemic. Today, we announced a significant increase in our dividend (+7.4%), and we are purposely investing to drive not only a strong recovery, but also consistent, long-term growth. As we emerge, the investments that we've made will be evident in our attraction and retention of top talent, and in the new, innovative products and solutions that we'll offer physicians, patients, and healthcare systems."

Despite the near-term disruption, we think all of the work MDT did over the last five years to strengthen its relationships with its hospital clients will benefit the company as those providers seek to resume caring for non-COVID-19 patients and performing the more profitable cardiovascular, neurovascular and orthopedic procedures that can help stabilize finances at hospitals. We believe the steps the company has taken to retain its factory workers and sales reps will play important roles in helping MDT return to growth and we think that the stock offers appealing long-term upside. We like the company's diverse portfolio, as it seems to continuously offer up new products to keep the growth engine going as older products mature. With domestic demographic trends in its favor, its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders, are a major asset. We have trimmed our Target Price for MDT, which now sports a dividend yield of 2.4%, to $119.

Despite a mild pullback on Friday after reporting solid fiscal Q2 2020 results, shares of agricultural and farm machinery firm **Deere & Co.** (DE – $140.71) surged almost 15% last week. For the quarter, Deere announced adjusted EPS of $2.11, 30% above lowered expectations of $1.62, on sales of $8.22 billion (vs. $7.71 billion est.). While the company emphasized its ongoing investment in precision agricultural and aftermarket services and the benefits of a robust connectivity effort to drive market share amid the COVID-19 pandemic, management did imply that the second half of its fiscal year is filled with uncertainties. As such, net income is likely to be in a range of $1.6 billion to $2 billion for the full year, below prior expectations of $2.1 billion.

"John Deere's foremost priority in confronting the coronavirus crisis has been to safeguard the health and well-being of employees while fulfilling its obligation as an essential business serving customers throughout the world," said CEO John C. May. "We've had good success in these areas thanks to the proactive measures we have taken to keep employees safe and our production facilities and parts distribution centers operational. At the same time, the company has reached out to our local communities to help those in need as a result of the pandemic. Deere and its employees have provided generous support to area food banks and other organizations offering assistance during this difficult time."

"I would like to express my appreciation to the thousands of John Deere employees, dealers and suppliers who have worked tirelessly to keep our operations safe and our customers up and running during this challenging period," Mr. May added. "Deere is well-known for developing strong relationships with a range of stakeholders, which prove extremely valuable in difficult times. We remain committed to offering a full suite of advanced digital tools that give our customers unique capabilities and help them do their work more efficiently and profitably. As a result, we're confident the company will successfully manage the pandemic's effects and strengthen its position serving customers in the future."

Deere will undoubtedly face near-term headwinds, however, we remain optimistic about the long-term potential of global agriculture in general as the decline of worldwide arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. Shares yield 2.2% and our Target Price for DE is $189.

Cruise operator **Royal Caribbean** (RCL – $43.14) reported a loss of $1.48 per share Q1. Shares were little changed on the week, as a loss was assuredly expected by the Street, given the predominate focus on survival in recent months. Though the stock is off more than 67% year to date, shares are up almost 100% from the March lows, as RCL has reduced or deferred its capital spending for all of 2020 by over 65% (down to approximately $1.7 billion), with only $500 million to be spent in the remaining months. It also has been able to push payments for debt borrowings against its vessels by 12-months, bringing debt maturities for the rest of 2020 down to $400 million, and the company added almost $4 billion of additional liquidity in the most recent quarter. Management estimates cash burn to be in the range of $250 million to $275 million per month throughout the suspension of operations.

The company has adjusted swiftly to the current environment as it operates under the CDC no-sail order through the end of July. CEO Richard Fain explained, "In the 2 months since we suspended operations, we've been working tirelessly to safely repatriate our guests and crew members to their homes. Our crew come from more than 100 countries around the world with widely different safety protocols and travel restrictions. This has turned what should be a simple task into a monumental one. It's really hard to convey the complexity of the process to somebody who's used to making simple travel arrangements, but our teams are working around the clock with the multitude of governing bodies to repatriate our crews as soon as possible. We've even gone to the extent of using our ships as transport vessels and currently have 9 ships carrying more than 10,000 crew members back to their home countries. It's a complex and expensive way to do it, but it's the most reliable way to get these men and women home to their families as quickly as possible. And therefore, we've undertaken to do it this way. We've also implemented actions to provide guests with some flexibility and peace of mind as they look forward to resuming their travel. To this end, we have implemented the Cruise with Confidence program, where guests have the flexibility to cancel their cruises up to 48 hours prior to sailing and receive a full credit on the cruise fare for a future cruise. We have recently enhanced this program with our lift and shift program — or lift and shift option, which gives our guests even more comfort for the time ahead. We're delighted to say that these programs have been very well received as they benefit both our guests and our liquidity profile."

Looking ahead, bookings for the remainder of 2020 not surprisingly are well-behind this point last year, but it is very encouraging that though 2021 load factors are below the same time last year, they are still within historical ranges with prices for those cruises up around mid-single digits. CFO Jason Liberty said, "Our current booking trends indicate that there is demand for cruising. However, our guests now require more flexibility than ever. And to provide that flexibility, we have introduced the Cruising with Confidence program. Also, we have provided guests who are booked on suspended sailings with the option of a 125% future cruise certificate in lieu of cash refunds. To date, approximately 45% of the guests who are booked on one of these voyages has requested a refund and the remainder are holding an FCC. Approximately 20% of the guests who have been issued FCCs have already rebooked on future voyages. Most rebooked on similar itineraries and many are actually using 125% value to upgrade to a higher stateroom category. As you may expect, that our loyalty guests are redeeming their FCCs at a much faster pace than non-loyalty guests."

Nevertheless, Mr. Fain reminds us that much work remains as Royal incorporates elevated safety measures in anticipation of future sailings, “We’re trying to use this time wisely. We have been and are working on ways to up our game in this field to ensure that we use our ingenuity, our passion and our innovation to raise the bar to new heights. We are calling our aspirational program the Healthy Return to Service program. The program will have 4 main focuses: upgraded screening prior to boarding, enhanced processes and procedures onboard, special focus on addressing the destinations we visit and procedures for dealing with any reports of exceptions. We recognize that this is an extremely complex area, and we have assembled a blue-ribbon team of experts to advise us on the right approach. Our goal is to raise our standards to entirely new levels, and we believe that the Healthy Return to Service program will help us get there. We have the time. We have the determination, and we have the expertise.”

It appears from our vantage point that RCL will likely make it to the other side of the current storm and given current bookings for 2021, a case can be made that long-term cruising demand remains very strong. That said, debt issuance and payment deferrals into the future will eventually come to roost, and efforts to make cruising safer will come at a cost, which will weigh on results even once sailings are reinstated. Our Price Target for RCL now stands at $62.