Market Commentary Monday, June 8, 2020

June 8, 2020

EXECUTIVE SUMMARY

Newsletter Trades – Sold WSM and Bought 8 Stocks for 4 Portfolios
Week in Review – Superb 5 Days, Especially for Value
Perspective – Volatility is Normal; But Stocks Generally Appreciate Over Time
Sentiment – Investors are Hardly Euphoric
Valuations – Stocks are Very Attractive with Interest Rates Extraordinarily Low
Economy – Data Decidedly Less Worse
Light at the End of the Tunnel – Earnings Likely to Recover in 2021; Value Performs Very Well Following Recessionary Troughs
Stock News – Updates on DAL, ALK, RCL, CCL, AVGO, SJM, CHNG, PFE & TSN

Market Review

A little housekeeping before this week's missive. On Tuesday, June 2, as mentioned on our *Sales Alert* two trading days earlier, we sold 620 and 122 shares of **Williams-Sonoma** (WSM) respectively held in TPS Portfolio and Buckingham Portfolio at $83.9316. We will use that same price to close out the 197 WSM shares held in our hypothetical Millennium Portfolio.

Also, as discussed in the June edition of *The Prudent Speculator*, we bought the following on Thursday, June 4.

TPS Portfolio
867 **Leggett & Platt** (LEG – $37.15) at $34.5959

Buckingham Portfolio
12 **Capital One Financial** (COF – $79.02) at $75.7325
128 **Cohu** (COHU – $17.65) at $16.4919

Millennium Portfolio
127 **Pinnacle West Capital** (PNW – $79.38) at $78.58
227 **Timken** (TKR – $48.10) at $43.98

PruFolio
815 **Greenbrier** (GBX – $26.43) at $24.51
464 **Walgreens Boots Alliance** (WBA – $45.35) at $43.10
221 **HollyFrontier** (HFC – $36.77) at $33.49

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Mama always said there would be weeks like the one just completed! Indeed, illustrating that equities can move sharply in both directions, often independent of the current newspaper headlines, stocks enjoyed another terrific five days of trading. Value led the charge, with the Russell 3000 Value index soaring 7.81%, compared to a 5.28% return for the Russell 3000 index and a 3.38% advance for the Russell 3000 Growth index.

Happily, for those of us who have long championed inexpensive stocks, Value is now on a very-impressive three-week winning streak dating back to the middle of May, even as we concede that the year-to-date performance derby heavily favors Growth.

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THE PRUDENT SPECULATOR
Stellar Three Weeks…Led by Value

It remains a "red" year for Value, with inexpensive stocks still down significantly (the S&P 500 Pure Value index is off 21.2% YTD), but the three weeks since 5.15.20 have been terrific.

Total Returns Matrix

Since 5.15.20	Since 3.23.20	Since 2.19.20	Year to Date	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Name
1.37	5.15	1.88	2.10	4.87	10.65	19.03	15.72	33.55	66.35	145.74	Bloomberg Barclays Global-Aggregate Bond
0.09	3.88	2.90	4.95	8.77	15.30	22.40	27.86	45.45	89.20	171.42	Bloomberg Barclays US Aggregate Bond
14.77	46.61	-6.88	-3.90	8.79	37.38	71.73	114.81	250.68	279.91	306.38	Dow Jones Industrial Average
15.69	44.92	-9.43	-8.05	2.98	17.20	31.75	65.69	150.09	163.70	189.16	New York Stock Exchange Composite
15.06	52.49	-6.15	-1.37	10.21	29.22	41.51	101.04	230.39	273.00	191.74	Russell 2000 Growth
26.79	**48.78**	**-15.40**	**-17.16**	**-7.50**	**-3.53**	**14.47**	**43.79**	**121.04**	**132.26**	**374.20**	**Russell 2000 Value**
19.99	50.81	-10.52	-9.11	1.55	12.52	28.29	71.52	172.88	198.09	284.26	Russell 2000
9.15	45.50	-0.90	8.00	26.45	61.41	98.90	181.82	354.89	381.72	192.99	Russell 3000 Growth
17.48	**45.12**	**-10.72**	**-9.83**	**1.69**	**14.04**	**32.65**	**73.55**	**178.60**	**167.25**	**254.29**	**Russell 3000 Value**
12.66	45.32	-5.48	-0.65	14.20	36.87	63.93	123.37	259.84	264.23	236.02	Russell 3000
11.68	43.36	-5.08	-0.26	15.31	39.17	69.09	129.20	269.36	265.21	222.08	S&P 500
9.13	43.78	-1.26	7.40	22.03	55.85	94.58	174.43	349.31	360.48	222.22	S&P 500 Growth
15.31	**42.85**	**-9.70**	**-8.86**	**7.48**	**21.77**	**42.23**	**84.65**	**193.48**	**178.12**	**204.70**	**S&P 500 Value**
12.89	53.68	-2.49	4.64	15.72	42.58	67.93	144.74	336.94	385.65	282.80	S&P 500 Pure Growth
28.57	**59.61**	**-18.92**	**-21.15**	**-10.84**	**-0.47**	**11.55**	**58.89**	**177.60**	**194.24**	**482.70**	**S&P 500 Pure Value**
18.56	23.76	-12.47	-11.41	-1.30	20.50	42.55	79.95	185.88	259.48	416.63	Berkshire Hathaway B

Of course, whether one holds Value or Growth, the magnitude of the rebound off of the March 23 lows has been astounding,…

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THE PRUDENT SPECULATOR
Bear/Bull Markets Through the Years

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

				2/20/1928	9/16/1929	87.97%	BULL
9/16/1929	11/13/1929	-44.57%	BEAR	11/13/1929	4/10/1930	46.77%	BULL
4/10/1930	12/16/1930	-44.29%	BEAR	12/16/1930	2/24/1931	25.83%	BULL
2/24/1931	6/2/1931	-32.86%	BEAR	6/2/1931	6/26/1931	25.82%	BULL
6/26/1931	10/5/1931	-42.54%	BEAR	10/5/1931	11/9/1931	30.61%	BULL
11/9/1931	6/1/1932	-61.81%	BEAR	6/1/1932	9/7/1932	111.59%	BULL
9/7/1932	2/27/1933	-40.60%	BEAR	2/27/1933	7/18/1933	120.61%	BULL
7/18/1933	10/19/1933	-29.43%	BEAR	10/19/1933	2/6/1934	37.28%	BULL
2/6/1934	3/14/1935	-31.81%	BEAR	3/14/1935	3/10/1937	131.64%	BULL
3/10/1937	3/31/1938	-54.47%	BEAR	3/31/1938	11/9/1938	62.24%	BULL
11/9/1938	4/11/1939	-24.44%	BEAR	4/11/1939	10/25/1939	26.78%	BULL
10/25/1939	6/10/1940	-31.95%	BEAR	6/10/1940	11/7/1940	26.70%	BULL
11/7/1940	4/28/1942	-34.42%	BEAR	4/28/1942	5/29/1946	157.70%	BULL
5/29/1946	5/19/1947	-28.47%	BEAR	5/19/1947	6/15/1948	23.89%	BULL
6/15/1948	6/13/1949	-20.57%	BEAR	6/13/1949	8/2/1956	267.08%	BULL
8/2/1956	10/22/1957	-21.63%	BEAR	10/22/1957	12/12/1961	86.35%	BULL
12/12/1961	6/26/1962	-27.97%	BEAR	6/26/1962	2/9/1966	79.78%	BULL
2/9/1966	10/7/1966	-22.18%	BEAR	10/7/1966	11/29/1968	48.05%	BULL
11/29/1968	5/26/1970	-36.06%	BEAR	5/26/1970	1/11/1973	73.53%	BULL
1/11/1973	10/3/1974	-48.20%	BEAR	10/3/1974	11/28/1980	125.63%	BULL
11/28/1980	8/12/1982	-27.11%	BEAR	8/12/1982	8/25/1987	228.81%	BULL
8/25/1987	12/4/1987	-33.51%	BEAR	12/4/1987	3/24/2000	582.15%	BULL
3/24/2000	9/21/2001	-36.77%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	10/9/2007	101.50%	BULL
10/9/2007	11/20/2008	-51.93%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	2/19/2020	400.52%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	3/23/2020	6/5/2020	42.75%	BULL
	Average Drop	-34.83%			Average Gain	107.78%	

While investors suffered a stomach-churning 5-week Bear Market plunge of 33.92% in the S&P 500 from 2.19.20 to 3.23.20, the eighth drop of 20% or greater since the launch of *The Prudent Speculator* in 1977, those who stayed the course are in Bull Market #9. Happily, history shows that on average far more money has been made during the rallies than has been lost in the downturns.

…even as we know that equities have proved rewarding in the fullness of time for those who remember that the secret to success in stocks is not to get scared out of them.

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

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	110.7%	973	27	3.4	3/23/2020	6/5/2020
17.5%	66.3%	568	39	2.4	3/23/2020	6/5/2020
15.0%	66.1%	553	45	2.1	3/23/2020	6/5/2020
12.5%	44.1%	332	72	1.3	3/23/2020	6/5/2020
10.0%	34.7%	243	98	0.9	3/23/2020	6/5/2020
7.5%	23.5%	147	156	0.6	3/23/2020	6/5/2020
5.0%	14.7%	72	303	0.3	4/1/2020	6/5/2020

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.4%	286	26	3.5	2/19/2020	3/23/2020
-17.5%	-30.4%	217	38	2.4	2/19/2020	3/23/2020
-15.0%	-28.4%	189	44	2.1	2/19/2020	3/23/2020
-12.5%	-22.8%	138	71	1.3	2/19/2020	3/23/2020
-10.0%	-19.6%	102	97	0.9	2/19/2020	3/23/2020
-7.5%	-15.5%	65	155	0.6	3/13/2020	3/23/2020
-5.0%	-11.0%	37	302	0.4	3/26/2020	4/1/2020

From 02.20.28 through 06.05.20. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

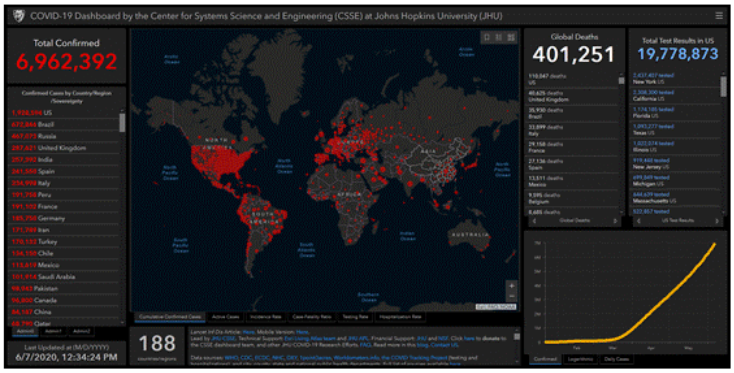
	Annualized Return	Standard Deviation
Value Stocks	12.7%	26.0%
Growth Stocks	9.4%	21.5%
Dividend Paying Stocks	10.4%	18.1%
Non-Dividend Paying Stocks	8.8%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.7%	8.6%
Intermediate Gov't Bonds	5.2%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

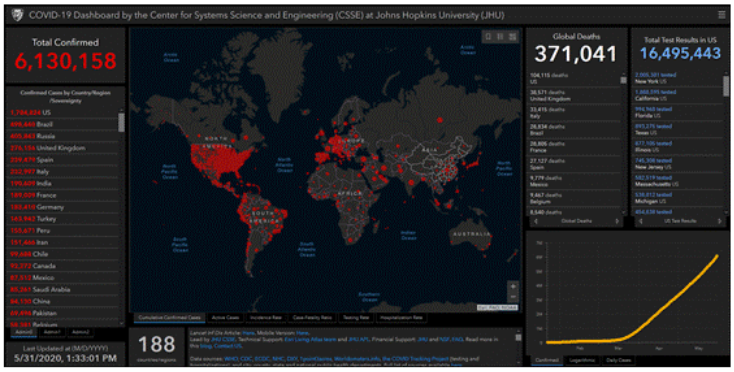
From 06.30.27 through 04.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

To be sure, given that the average member of the Russell 3000 index is still down 8.1% for the year, and the S&P 500 Pure Value index is off a whopping 21.2%, there are no victory laps being taken. However, we are pleased that folks who possess a long-term time horizon have received another reminder that the only problem with market timing is getting the timing right.

Still, we understand that many are perplexed as to why stocks would be rallying in the face of social unrest and the ongoing COVID-19 scourge,…

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 more than 110,000 fatalities and many worried that the counts will accelerate, given the social protests and reopening of economies. Of course, the so-called "curve" has flattened, even as the global mortality increase over the last seven days equaled 8.1%, up from 7.9% the week prior.

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

…but we continue to think the words of wisdom penned 66 years ago from legendary investor John Templeton are helpful: "If all other factors were equal, stock prices might move in the same direction and the same degree as industrial production. However, there is never a time when other factors are equal…You will find that stock prices have gone in the opposite direction from industrial production more frequently than they have gone in the same direction…The influences on stock prices are so numerous and so complex that no person has ever been able to predict the trend of stock prices with consistent success."

No doubt, it is not easy to keep the faith, especially when the financial press is replete with warnings from strategists that investors are as euphoric as they have ever been or that stocks are incredibly expensive, two dubious opinions, in our view, that a couple of our managed account clients brought up in conversations with your Editor this week.

Looking at investor sentiment first, the data hardly support the assertion that folks are showing unbridled affection for equities.

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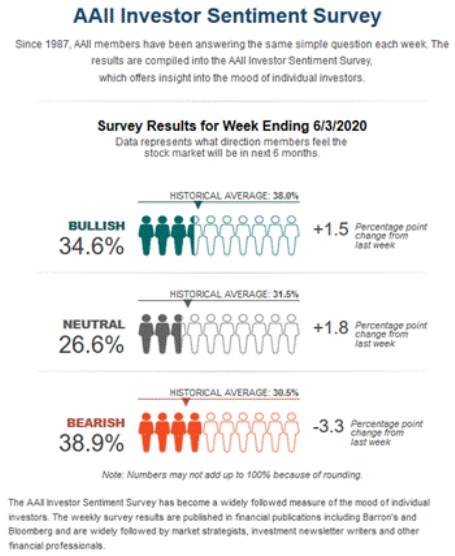
THE PRUDENT SPECULATOR
Sentiment: Little Enthusiasm for Stocks

The latest Sentiment Survey of AAII members saw 8.4% more Bears than usual and 3.4% fewer Bulls than normal.



The love affair with bonds continues, per the latest data from ICI, as mutual and exchange traded fund investors continue to shovel money into fixed income, with hardly any net-affection for U.S. stocks.

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

Week Ended	5/27/2020	5/20/2020	5/13/2020	5/6/2020	4/29/2020
Total Equity	-2,352	-13,721	-10,763	-22,368	-19,551
Domestic	1,612	-8,121	-4,354	-15,840	-12,744
World	-3,963	-5,600	-6,409	-6,528	-6,807
Hybrid	249	-1,099	-1,915	-774	-2,314
Total Bond	17,449	18,479	15,509	18,118	6,378
Taxable	15,509	16,173	14,572	17,726	8,134
Municipal	1,939	2,307	937	392	-1,756
Commodity	822	1,953	1,214	1,616	1,692
Total	16,168	5,612	4,045	-3,409	-13,795

Source: Investment Company Institute

In fact, the numbers suggest that investors are remaining infatuated with fixed income and money markets,…

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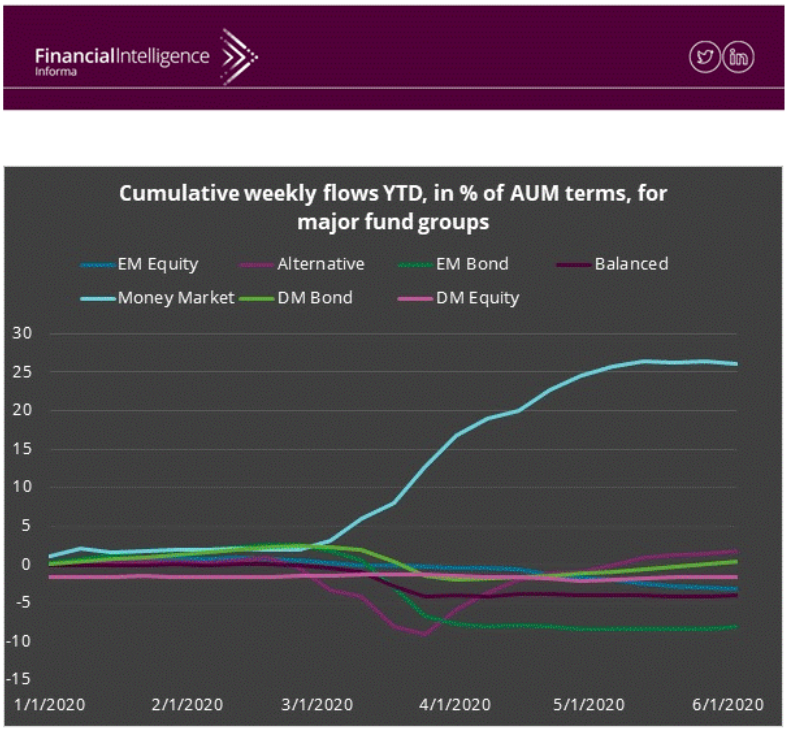
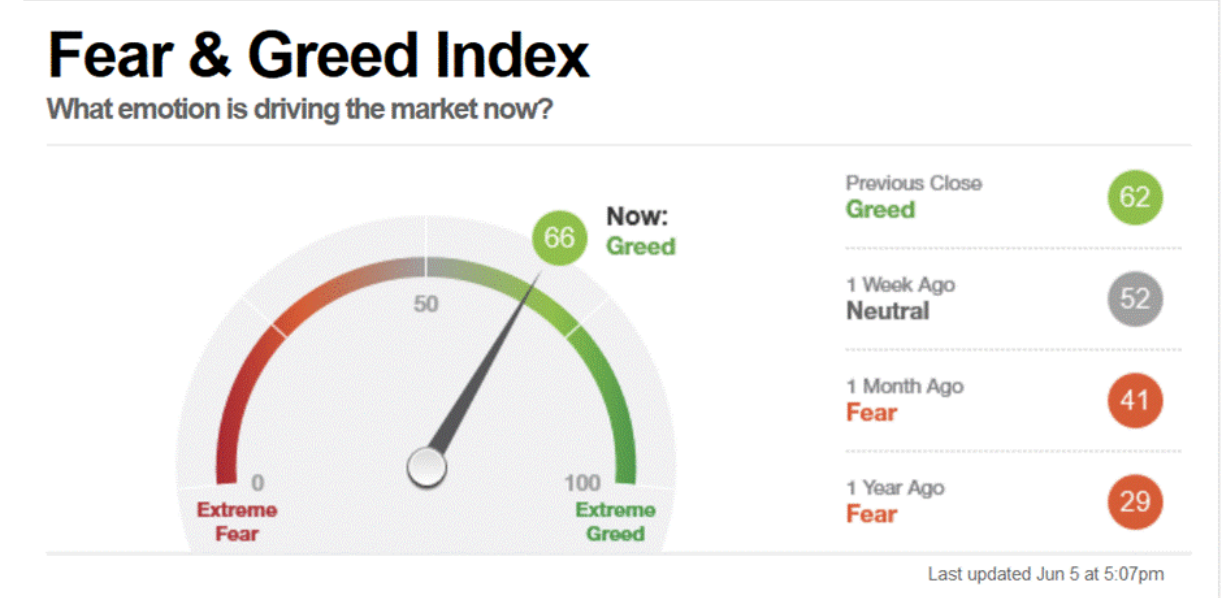
THE PRUDENT SPECULATOR
Not Yet Seeing Much Love for Equities



June 4, 2020

The week ending June 3 saw EPFR-tracked Money Market Funds record their biggest outflow since the second week of January. But, rather than chase rallying equity markets, investors have shifted their focus to fixed income groups. They steered over $30 billion into all Bond Funds – a new weekly record – with High Yield Bonds posting their second largest inflow since EPFR started tracking them and US Bond Funds their biggest in over 17 years.

…though that does not mean, given a 40%+ recovery in 10 weeks, that some of the *CNN Money* indicators have not ticked into the Extreme Greed or Greed category,…



CNN Money 6.5.20. Seven Fear & Greed Indicators. Safe Haven Demand and Put and Call Options: Extreme Greed. Stock Price Breadth: Greed. Junk Bond Demand; Market Volatility; Market Momentum and Stock Price Strength: Neutral.

…but by no means are we seeing anything (yet) on the sentiment front that would cause us any short-term consternation from a contrarian standpoint.

We also are not losing sleep over the arguments that stock prices are somehow too expensive because price/earnings ratios are elevated. We continue to believe that valuations cannot be looked at in a vacuum as yields on competing investments have to be considered. After all, cash in investment accounts today generally is yielding 0.01%, while even a "Prime" money market fund, like the popular Schwab Value Advantage (SWVXX), is yielding just 0.17%, or 17 basis points.

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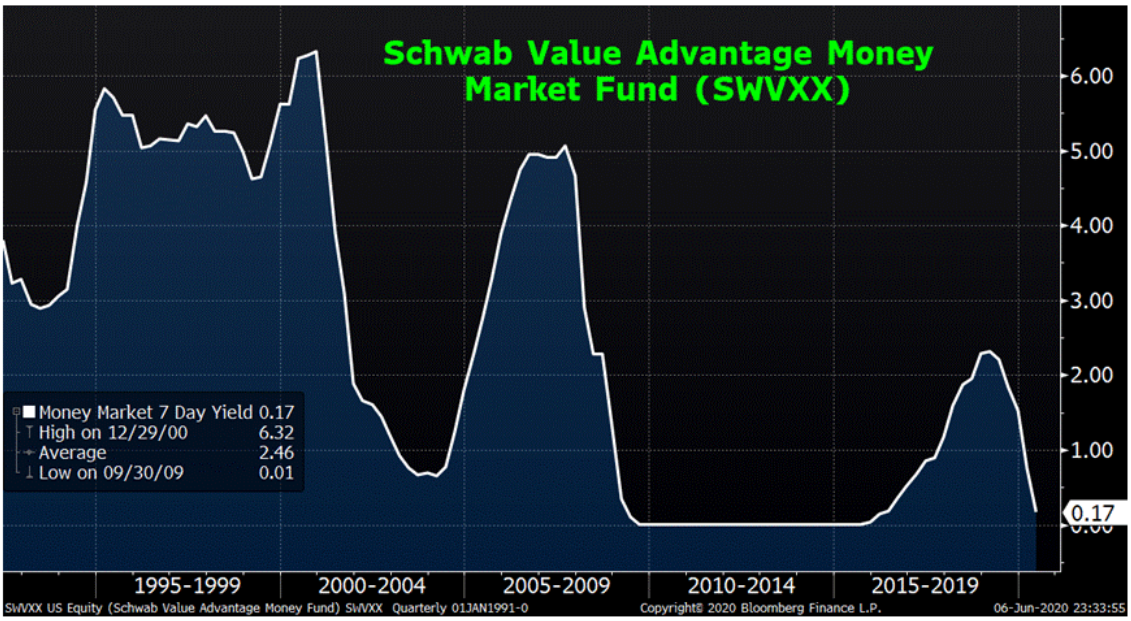
THE PRUDENT SPECULATOR
Money Market Fund Yields Over Time

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered from 1.53% at the start of 2019 to 0.17% today, similar but even larger than the drop from 1.38% on 12.31.08 to 0.34% on 3.31.08.



Considering that SWVXX offered yields of 500 and 600 basis points at previous respective overall-market peaks in 2007 and 2000, there is a big difference in today's near-zero yield. As Warren Buffett said back in 2017, "The most important item over time in valuation is obviously interest rates. Any investment is worth all the cash you're going to get out between now and judgment day discounted back."

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THE PRUDENT SPECULATOR
Interest Rates Very Supportive of Stocks

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's rich relative earnings yield (4.50% vs. 0.90% 10-Year), with the S&P 500 dividend yield of 1.90% also very generous.

The Oracle of Omaha added back in 2019, "If I had a choice today for a 10-year purchase of a 10-year bond at whatever it is…or buying the S&P 500 and holding it for 10 years, I'd buy the S&P in a second. Interest rates govern everything, and if there were a way to short 30-year bonds and own the S&P for 30 years, I would give you enormous odds that the S&P is going to beat 30-year bonds." He made those comments when the 30-year U.S. Treasury was yielding more than 300 basis points. Today that instrument is yielding 167 basis points, lower than the 190-basis-point dividend yield on the S&P 500!

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THE PRUDENT SPECULATOR
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 >1.67%	Count <=1.67%	Percent >1.67%
1 Month	692	422	62.1%
3 Months	733	379	65.9%
6 Months	768	341	69.3%
1 Year	787	316	71.4%
2 Year	883	208	80.9%
3 Year	927	152	85.9%
5 Year	923	132	87.5%
7 Year	983	48	95.3%
10 Year	958	37	96.3%
15 Year	929	6	99.4%
20 Year	875	0	100.0%

DIVIDEND PAYERS

	Count >1.67%	Count <=1.67%	Percent >1.67%
1 Month	687	427	61.7%
3 Months	743	369	66.8%
6 Months	776	333	70.0%
1 Year	809	294	73.3%
2 Year	903	188	82.8%
3 Year	896	183	83.0%
5 Year	933	122	88.4%
7 Year	967	64	93.8%
10 Year	945	50	95.0%
15 Year	917	18	98.1%
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

True, some will argue that Mr. Buffett lost his nerve during the collapse of stocks in March, as he sat on more than $100 billion of Berkshire Hathaway cash, but we think he would have made some sizable purchases if the Federal Reserve had not been so quick to stem the panic in the financial markets, he had more confidence in a speedy reopening of businesses, including Berkshire's, across the country and he knew that the economic statistics would improve as rapidly as they have.

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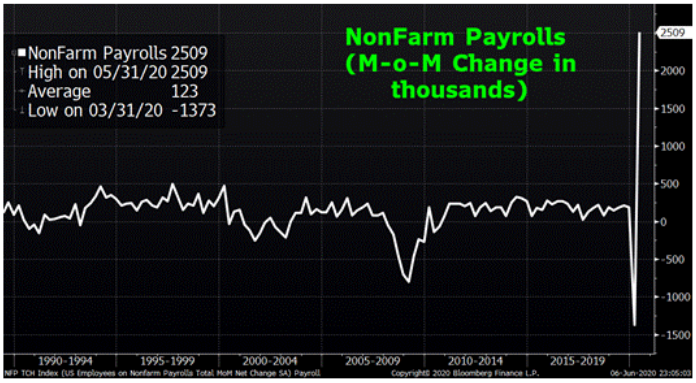
THE PRUDENT SPECULATOR
Record-Setting (Good!) Labor Report



The U.S. economy shocked pundits who had predicted the loss of more than 7 million jobs, when the Employment Situation report showed that 2.5 million payrolls were added during May, the best month in history and reversing April's massively bad negative 20.7 million figure. Given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 6.7%.

In Mr. Buffett's defense, economists have proved yet again, as Neils Bohr said, "It is very hard to predict, especially the future!" Incredibly, the Employment Situation Report out on Friday blew away expectations, even as it is hard to get excited about more than 40 million people having lost their jobs over the last couple of months.

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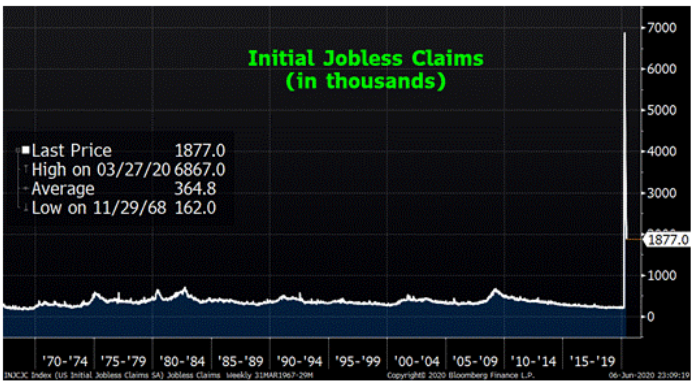
THE PRUDENT SPECULATOR
Less Worse Labor Numbers



While there is question about the validity of the 13.3% calc, the jobless rate for May came in much better than the expected 19.0%, improving from April's awful 14.7% level, which had shattered post-Great-Depression records. Meanwhile, the latest figures on first-time unemployment filings saw 1.9 million new claims, continuing the improvement from the all time high of 6.9 million set the week of March 31.

That said, when a second Great Depression was the forecast of more than a few economists, better numbers on the health of the factory sector,…

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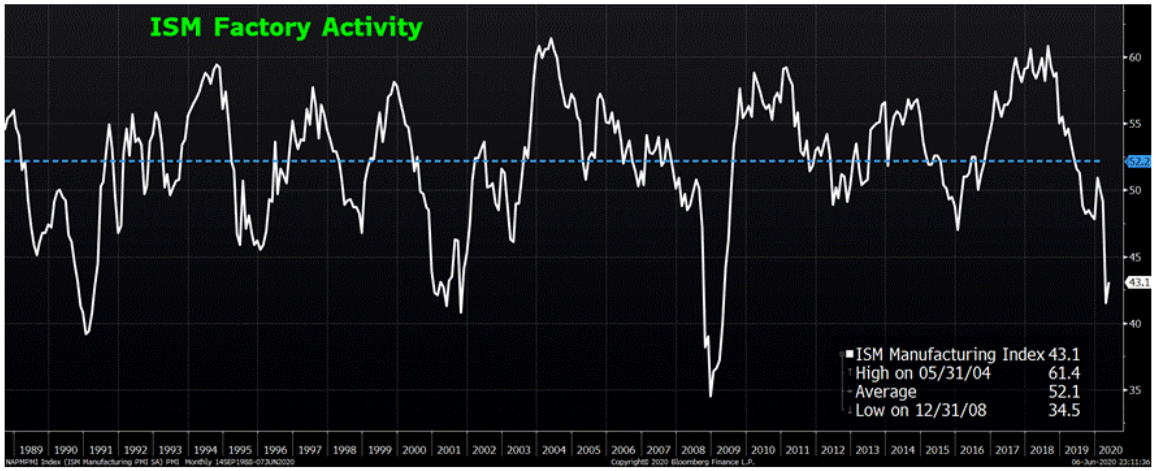
THE PRUDENT SPECULATOR
ISM Manufacturing Bounces

The latest read on the health of the manufacturing sector rebounded to 43.1 in May, recovering slightly from the 11-year-low of 41.5 set the month prior, with the Institute for Supply Management stating, "The past relationship between the PMI and the overall economy…corresponds to a 0.1% increase in real gross domestic product (GDP) on an annualized basis."



…and the service sector,…

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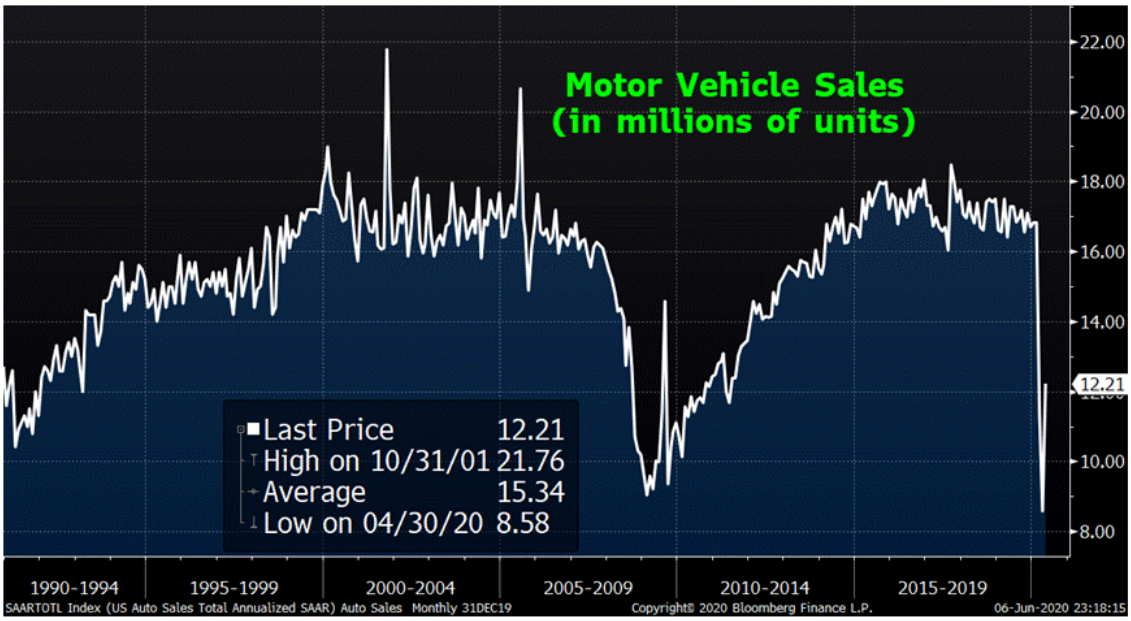
THE PRUDENT SPECULATOR
ISM Non-Manufacturing Jumps

The May reading on the health of the service sector (NMI) climbed to a better-than-expected 45.4, bouncing back from the 41.8 posted in April. Of course, the keeper of the gauge, the Institute for Supply Management states, "The past relationship between the NMI and the overall economy…corresponds to a 1.1% decrease in real gross domestic product (GDP) on an annualized basis."

…and auto sales were not thought to be in the cards so soon.

Huge Rebound in Auto Sales

While the May annualized run rate for car and truck sales of 12.2 million units is terrible relative to data from the last several years, the total marked a massive improvement over April's 8.6 million level.



That does not mean that the economy is off to the races by any stretch of the imagination, and earnings are likely to fall off a cliff this year, but the stock market is an anticipatory mechanism, so that a severe recession can actually be seen as good news when something far worse was already discounted. As such, if folks think that there is daylight at the end of the tunnel, such as a significant bounce back in earnings on the horizon, it should not be a big surprise that equities in general would catch a bid,…

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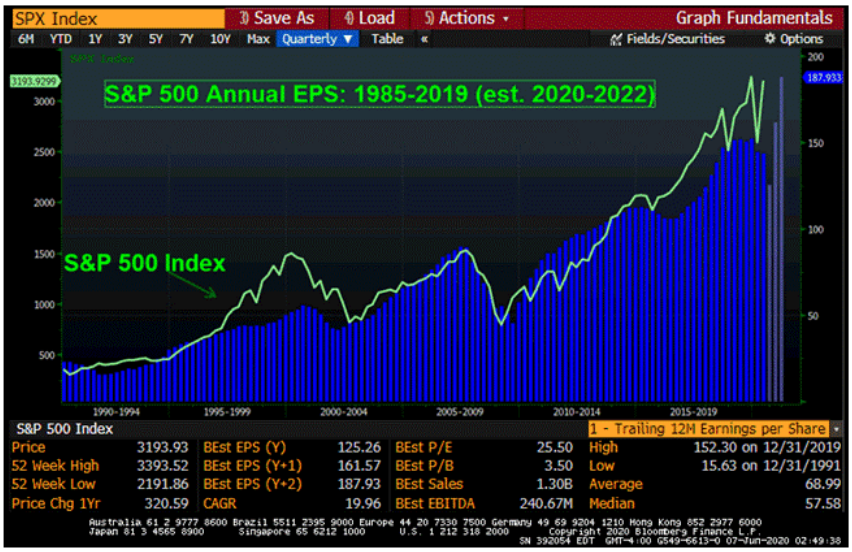
THE PRUDENT SPECULATOR
EPS to Plunge in '20 and Rebound in '21

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	$44.59	$161.80
9/30/2021	$42.05	$153.10
6/30/2021	$38.14	$142.09
3/31/2021	$37.02	$127.03
12/31/2020	$35.89	$109.71
9/30/2020	$31.04	$113.00
6/30/2020	$23.08	$121.77
3/31/2020	$19.70	$138.83
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 6.4.20

…and that interest in Value stocks in particular would pick up.

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

While the recent trend has been up, we know that equity prices will always gyrate in both directions, so though we remain optimistic about the long-term prospects of our broadly diversified portfolios of undervalued stocks, we continue to be braced for downside volatility…and we still have a few dollars with which to shop as new opportunities arise.

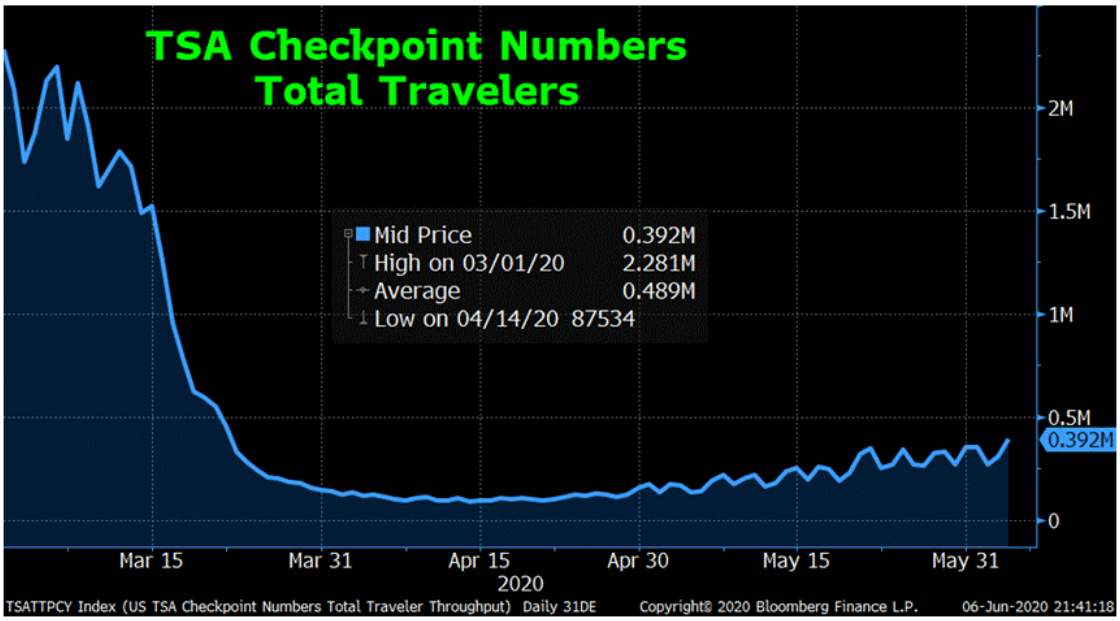
Stock Updates

Jason Clark, Chris Quigley and Zach Tart look at several of our companies that posted quarterly results or had updates out last week. 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/.

Continuing with the data has become less worse theme,…

Air Travel Rebounding…Albeit Modestly

While the number of passengers making their way through TSA security checkpoints was still less than 20% of "normal" levels, the latest tally of 392,000 on 6.4.20 was the highest recorded since 3.23.20.



…travel-related stocks soared in price last week thanks in large part to increased airline flights. American Airlines said it would operate 55% of last year's domestic schedule in July, up from a 20% level in April and May. **Delta Air Lines** (DAL – $34.16) also said it would double the number of its flights in July compared to May. Certainly, our two airline stocks are hardly out of the woods, and one might expect some "profit-taking" soon by those fortunate to have bought in recent weeks, but we are inclined to hold DAL for an upwardly revised $53 Target Price and **Alaska Air Group** (ALK – $42.72) for an updated $64 Target Price.

Cruise bookings also seem to be coming back strongly, though we must take travel industry anecdotal data and estimates with a few grains of salt,…

Cruise Bookings Rise as Industry Appears to Turn a Corner - Theresa Norton June 05, 2020, travelpulse.com

Cruise bookings for departures in late 2020 and beyond are rising week over week, a sign that the industry is slowly recovering from the COVID-19 devastation.

"Prior to COVID-19, we would typically judge our performance on how well we are performing against the same period last year. However, given these unprecedented times, we are looking at our bookings and comparing them week over week," said Michelle Fee, founder and CEO of Cruise Planners. "We are beginning to see positive signs of improvement versus the last four weeks, which is encouraging. We do feel that we may be 'turning a corner' and seeing signs of better booking weeks ahead."

Drew Daly, senior vice president and general manager of Dream Vacations, CruiseOne and Cruises Inc., said the companies are experiencing a "nice, consistent increase in volume" of both cruise and land sales for the past several weeks.

"The good news is our week-over-week booking volume for cruise and land bookings is solid," he said. "In addition, after Memorial Day we have seen an uptick in bookings. Since the middle of May, new bookings without a future cruise credit are coming in stronger, whereas in March/April, there was a greater percentage of FCC volume."

Daly said the bookings are largely for fourth-quarter 2020 and into 2021 and 2022. "The Caribbean is the main destination followed by Alaska and Europe," he said. "Specifically, river cruising is seeing a nice uptick in reservations in 2021 and into 2022."

Fee said the core destinations of the Caribbean, Europe and Alaska are the top three choices for 2021 travel.

James Ferrara, co-founder and president of InteleTravel and an advisory board member of the Cruise Lines International Association, said his network experienced a 300 percent growth in cruise sales since mid-April. He credited the surge in part to "Fear of Missing Out," or FOMO, discounts and pent-up demand.

"Airlines, hotels, and cruise lines are in a media blitz about new cleaning technologies and protocols, health screening, social distancing measures and more – an array of creative solutions to consumers' fear of contracting the virus," he said. "Now, it's the comeback trifecta: it's about time, it's a limited super-value, and it's safe."

"The majority are avid cruisers, and honestly, Boomers are leading the pack," Fee said. "Cruise Planners agents have done a great job in helping those who want to move their trips from 2020 to 2021. So good news, we're starting to see more new bookings (as opposed to re-bookings) in the past couple of weeks."

…so we are still holding **Royal Caribbean** (RCL – $69.44) for a new $77 Target Price and **Carnival Corp** (CCL – $21.51) for an adjusted $26 Target Price.

Chip-designer **Broadcom** (AVGO – $317.08) reported earnings per share of $5.14, versus the $5.14 estimate, in Q2 2020. AVGO had revenue of $5.7 billion, also matching the consensus estimate. Shares rose 2.7% following the announcement and are now positive this year, after rallying more than 90% from the low on March 18.

CEO Hock Tan commented, "We clearly see significant puts and takes: On the positive side, a surge of demand in networking, storage and broadband; on the negative side, supply chain constraints and a product cycle delay in wireless. Therefore, we forecast our semiconductor solution revenue to be up 3% sequentially but only down 5% year-on-year for the third quarter despite the major product cycle delay in wireless. Turning to software, CA was up 2% year-on-year and flat sequentially. Bookings in our core accounts grew double digits annually, which was offset by the expected reduction in services revenue. Symantec grew 2% sequentially and contributed over $400 million in the quarter. After 2 quarters, we have successfully integrated Symantec onto the Broadcom platform and have largely contributed — completed the transition. As mentioned, bookings in our core accounts are growing and more than offsetting the transition out of smaller commercial accounts as we continue to rationalize the business. While Brocade

was down 21% year-on-year, it was up 11% sequentially in Q2 and was — and that was the third quarter in a row of sequential growth for Brocade following the Q3 bottom last year."

Mr. Tan moved past some of the coronavirus-related uncertainty and offered fiscal Q3 guidance, although full-year 2020 guidance remains uncertain, "We expect revenues from CA and Symantec, of course, to sustain on a sequential basis. However, very consistent with our distribution strategy in semiconductors, we are reducing channel inventory significantly for Brocade and expect Brocade revenue will be down significantly quarter-on-quarter in Q3. So as a result, we expect revenue from the software segment to be down approximately 7% sequentially in the third quarter. In sum, we expect our consolidated third quarter net revenue to be $5.75 billion, roughly flat from Q2. This reflects a 3% sequential projected revenue increase in semiconductors and a 7% sequential expected revenue decline in software."

Mr. Tan has a history of strong execution, while shares still trade for very reasonable valuation metrics, including a forward P/E around 14 and free cash flow yield near 8%. AVGO sports a very generous dividend yield of 4.3%, while management refinanced $18 billion of debt in the quarter and could use some of the $9.2 billion of cash to make selective acquisitions to improve the portfolio. Our Target Price is $411.

JM Smucker (SJM – $107.44), a maker of food and beverage products including its namesake jelly, posted earnings per share of $2.57, versus the $2.28 estimate, in fiscal Q4 2020. SJM had sales of $2.1 billion (vs. $2.1 billion est.). Shares tumbled 4.8% following the announcement, although they remain up 5% this year.

CEO Mark Smucker commented, "Our teams adapted to a rapidly changing environment by drawing on the strength of our production capabilities and responding quickly to customer and consumer needs. Our fourth quarter results, including record net sales and adjusted earnings per share performance, are a direct reflection of the dedication and agility of our teams…We will continue to focus on executing our long-term consumer-centric growth strategy while strengthening financial discipline. In the near term, this means focusing on executing four key priorities this fiscal year that are critical to ensuring we continue the underlying momentum and we achieve our financial goals for this year and beyond. These include, first, continued progress toward driving consistent net sales growth. Second, an increased focus on financial discipline to maintain or improve our strong profit margins and cash flow generation. Third is to harness our full suite of capabilities to improve our commercial execution and build competitive advantage. Fourth is the continued commitment to our purpose by feeding and fortifying connections."

Alas, despite the stellar results, SJM expects revenue to drop between 1% and 2% this fiscal year, while adjusted EPS should come in between $7.90 and $8.30. Free cash flow is expected between $900 million and $950 million with a gross margin near 37.5%. Mr. Smucker explained, "The increased contribution from the initial stock-up purchasing in the fourth quarter, a significant headwind throughout 2021 for the Away From Home business and incremental costs related to COVID-19 will be only partially offset by at home consumption growth for our coffee and consumer foods businesses. This will result in year-over-year declines for both sales and adjusted earnings per share."

While there will continue to be operating headwinds and competitive pressures, we like the diversification SJM adds to our broadly diversified portfolios and think that management's focus on pet foods and healthier franchises will boost the long-term prospects for the company. We expect some near-term volatility, as the COVID-related stockpiling and lack of restaurant traffic pushed some of SJM's businesses out of equilibrium. Of course, people need to eat in the U.S., regardless of the macroeconomic picture, and whether they eat in restaurants or at home, SJM is able to serve them. SJM sports a forward P/E ratio near 13 and a 3.3% dividend yield, while it ranks well relative to its peers in our proprietary scoring math. Our Target Price is now $134.

Technology-focused health concern **Change Healthcare** (CHNG – $12.09) released Q4 2020 financial results on Wednesday that beat analyst expectations (EPS of $0.42 vs. $0.36 est.), producing $1.55 in earnings per share for the full year. CHNG delivered over $300 million in free cash flow for the year and won business in multiple areas, including new customers in government and research and new contracts for payment and cloud services offerings.

CEO Neil E. de Crescenzo commented, "The spread of COVID-19 and the uncertainty around its trajectory in the United States has driven lower health care utilization without a corresponding increase in spending or transactions from COVID-19-related interventions. As we have always made clear, a portion of our business is tied to overall volumes of activity and spending in the health care industry. And therefore, we have been negatively impacted by this industry trend. While health care activity is resuming, this unprecedented downturn led us to several actions that we took to mitigate its impact on our business and help our customers during this crisis."

Change expanded or accelerated several initiatives and solutions across the firm's platform to meet new or urgent customer needs. Mr. de Crescenzo detailed, "For the Department of Health in one of the largest states in the United States, Change Healthcare rolled out a COVID-19 ordering and testing service between clinics in 67 counties across the state and one of the major commercial lab companies, all within 24 hours."

Elaborating on the firm's role in the implementation of technology to deliver healthcare, Mr. de Crescenzo stated, "We expect the increase in telehealth services to be a permanent change in health care delivery. But the speed and magnitude of the increase was a challenge for many providers and telehealth platform providers. To help with these telehealth services, we launched a set of virtual care enablement solutions, including engagement, financial management and workflow products and services. We are now engaged with over 150 telehealth platform providers. Our telehealth medical eligibility and claims bundle can be found on our API & Services Connection and purchased via the AWS Marketplace. Our telehealth lab orders, results and ePrescribe bundle can be found on our API & Services Connection and will soon be added to the AWS Marketplace."

CHNG is the product of a joint venture (started 2017) with and a spinoff of **McKesson** (MCK – $161.62) in March of this year. The evolving administrative needs of payors and providers along with other healthcare trends should offer tailwinds for Change. In addition, opportunities exist for the firm to meaningfully entrench itself into customer relationships through the integration of multiple offerings across its platform. Our Target Price for CHNG is $24.

Shares of **Pfizer** (PFE – $35.99) opened last Monday around 6% lower as investors reacted to negative results from a Phase 3 trial related to the firm's Ibrance product. Already widely used for the treatment of breast cancer in the metastatic setting, there were hopes that Ibrance could be used as an option for early-line treatment. The Independent Data Monitoring Committee of the collaborative Phase 3 early breast cancer PALbociclib CoLlaborative Adjuvant Study (PALLAS) determined that the trial is unlikely to show a statistically significant improvement in the primary endpoint of invasive disease-free survival (iDFS). Another trial called Penelope-B is over two years in the works, which tests the drug in patients with a high risk of recurrence after pre-surgery chemotherapy, with results expected later in the year.

"We are disappointed in this outcome. Breast cancer is a leading cause of death around the world and delaying or preventing the development of metastatic disease is a significant unmet need. PALLAS is a large study with many subgroups and we are actively collaborating to determine if there are patients who may benefit from adjuvant treatment with the palbociclib combination," said Chris Boshoff, M.D., Ph.D., Chief Development Officer, Oncology, Pfizer Global Product Development. "Since its initial approval in 2015, IBRANCE has helped change the treatment landscape for people with HR+, HER2- metastatic breast cancer. We are grateful to all patients, health care providers and our academic partners who have devoted so much to make this important study possible."

We thought that investors overreacted to the news, as Ibrance already raked in over 10% of Pfizer's sales in 2019 and is expected to produce over $5.5 billion in 2020. We appreciate that Pfizer's size offers one of largest economies of scale in the pharmaceutical industry and a pipeline of several other treatments across the firm's different segments in ongoing Phase 3 trials. PFE yields an attractive 4.2% and our Target Price is $45.

Last week, a federal grand jury indicted four executives on their alleged role in a conspiracy "to fix prices and rig bids for broiler chickens" between 2012 and 2017. The four people indicted allegedly conspired to suppress and eliminate competition for broiler chicken products sold in the U.S. The 20-page indictment included detail about communications between the defendants and other suppliers and customers. The Department of Justice noted that these are the first charges, leading us to believe there could be more. Interestingly enough, the four executive's firms were not charged.

While the investigation is ongoing, no one from protein producer **Tyson Foods** (TSN – $64.92) was included in the initial indictment. Of course, Tyson generates approximately 30% of its revenue from chicken, so this long-playing issue continues to be a headwind for investors. And, if that isn't enough, the company and its industry have been struggling to keep their processing plants safely open during the COVID-19 pandemic, while there has been a major shift from restaurants to grocery store sales that has strained supply chains.

Not surprisingly, TSN shares have been volatile, trading last week below $60 on Wednesday before ending close to $65 on Friday. Despite the nice rebound late last week, TSN is still down 29% on the year, even as there have been some tailwinds for the company, including positive trade developments as the African Swine Fever has caused a global pork shortage especially in

Asia. We believe that TSN is well positioned to supply China with pork and other proteins and backfill other markets.

While the near term is definitely murky, we like the long-term potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as people step up in socioeconomic class. Tyson maintained its dividend, and the yield is now 2.6%. Our Target Price is $87.