# Market Commentary Monday, June 22, 2020

June 22, 2020

**EXECUTIVE SUMMARY**

Newsletter Trades – Sold a Portion of AAPL
Week in Review – Solid Five Days
News Flow – Not-So-Good COVID-19; Very Good Econ Numbers
Fed – Buying Corporate Bonds; Richard H. Clarida Speaks
Interest Rates – Lower Rates Supports Equities
Money Market Funds – Investors Love the Mattress
Sentiment – AAII Contrarian Buy Signal
Market Timing – Only Problem is Getting Timing Right: ICI Fund Flows
Bond Infatuation – Money Continues to be Shoveled into Fixed Income
Patience – The Longer the Hold, the Lower the Chance of a Bad Outcome
Stock News – Updates on KR, ORCL, JBL, CCL & BIIB

**Market Review**

A little housekeeping before this week's missive. As indicated on our June 12, 2020 *Sales Alert*, we let go of a modest portion of our outsize ownership stake in **Apple** (AAPL – $349.72) for our newsletter portfolios on Tuesday, June 16. We sold 82 and 13 Apple shares respectively held in TPS Portfolio and Buckingham Portfolio at $349.915. We will also reduce our Apple position in our hypothetical Millennium Portfolio and PruFolio, liquidating a 0.9% or so position, which works out to 34 shares in the former account and 60 shares in the latter account. We will use the same $349.915 price for these hypothetical sales.

While it was poor last few days, we can't complain too much that the major market averages finished the latest trading week well into the green, given that the equity futures early last Monday morning were suggesting stocks would drop more than 3% that day.

Certainly, it was a week of contrast as stocks tumbled into the weekend on renewed COVID-19 concerns, given a sizable increase in cases across numerous U.S. states. True, a significant increase in testing accounts for the jump in positives for the virus, but hospitalizations were also on the rise, while 34,000 more folks died around the world in the past seven days.

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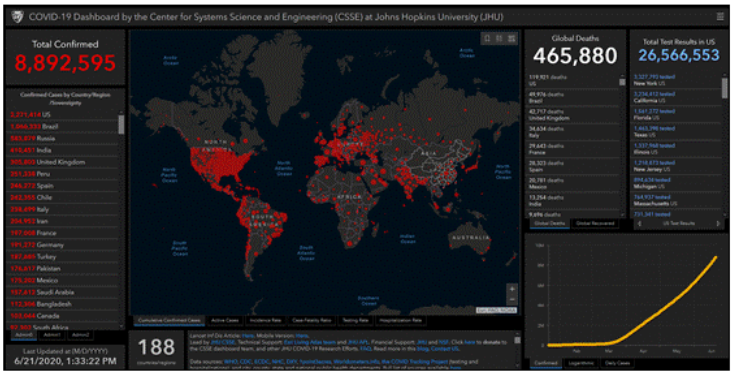
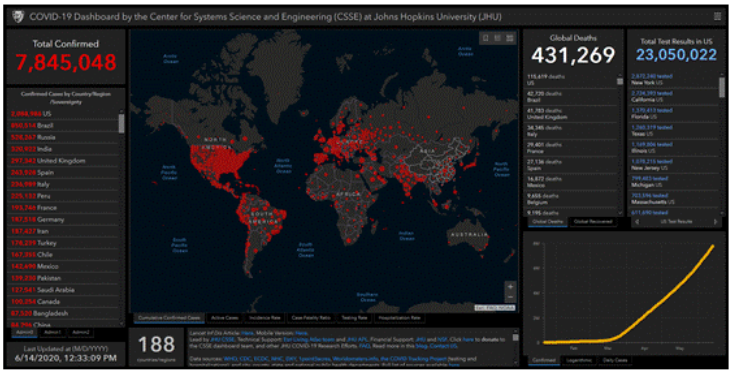
# THE PRUDENT SPECULATOR
## COVID-19 Global Spread




With access to testing markedly higher, there was a jump of one million in global Covid-19 confirmed cases in the latest week. Not surprisingly, case counts have picked up again as economies have reopened and social distancing has waned, and the U.S. is now up to 120,000 fatalities, with the global mortality increase over the last seven days equaling 8.0%, up from 7.5% the week prior.

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

In addition to the human toll, news on Friday that the aforementioned Apple decided to close 11 stores in South Carolina, North Carolina, Florida and Arizona on virus concerns did little to help investor optimism, even as economic numbers out earlier in the week were remarkably strong, especially in the case of retail sales,…

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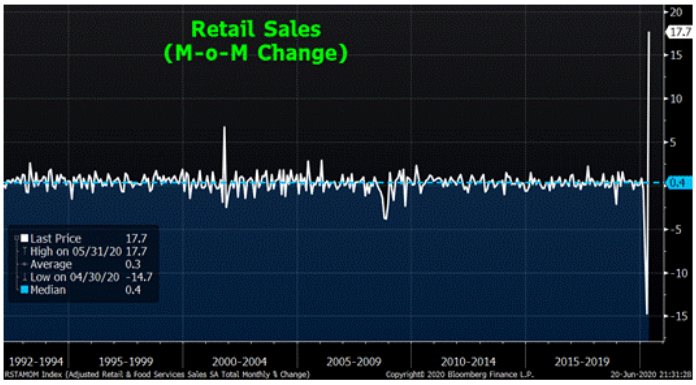
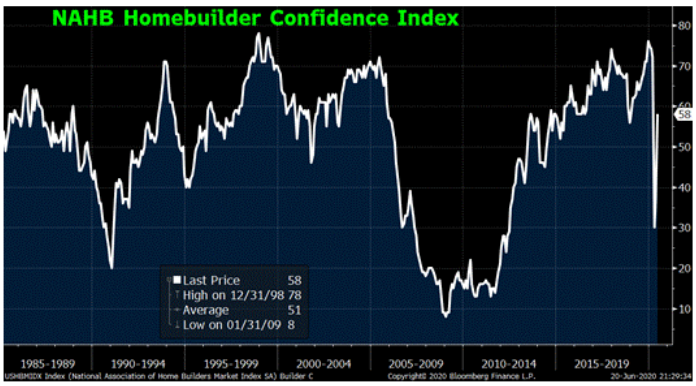
# THE PRUDENT SPECULATOR
## Shockingly Strong Econ Stats




Retail sales in May surged a whopping 17.7%, beating expectations for a 8.5% increase and recording the best month-over-month change ever. Automobiles and sales at clothing stores led the charge as pent-up demand was unleashed. Meanwhile, the National Association of Home Builders' monthly confidence index for June rose sharply to an above-average level of 58, up from an eight-year-low figure of 30 in April.

…and the outlook for manufacturing.

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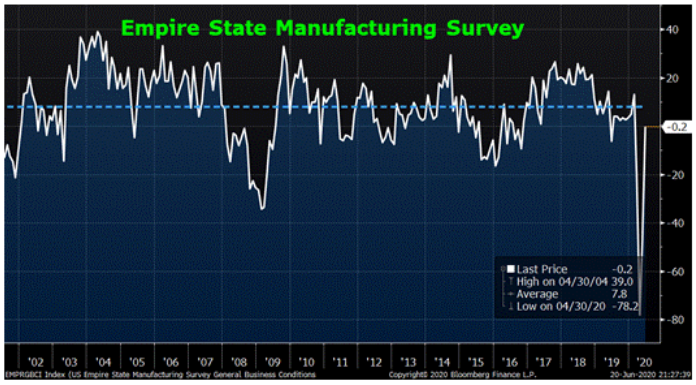
# THE PRUDENT SPECULATOR
## Manufacturing Data Improving Rapidly





With the survey crushed by COVID-19-related factory shutdowns the two months prior, the Empire State gauge of manufacturing activity in the New York area for June snapped back strongly to a still-not-great reading of -0.2, up from -48.5 in May. It was a similar but more-dramatic bounce to +27.5 (vs. -43.1 in May) in the Philadelphia Fed's June measure of manufacturing activity in the mid-Atlantic region.

In addition, the index of leading economic indicators soared a massive 2.8%, arguing for a significant economic recovery over the balance of the year.

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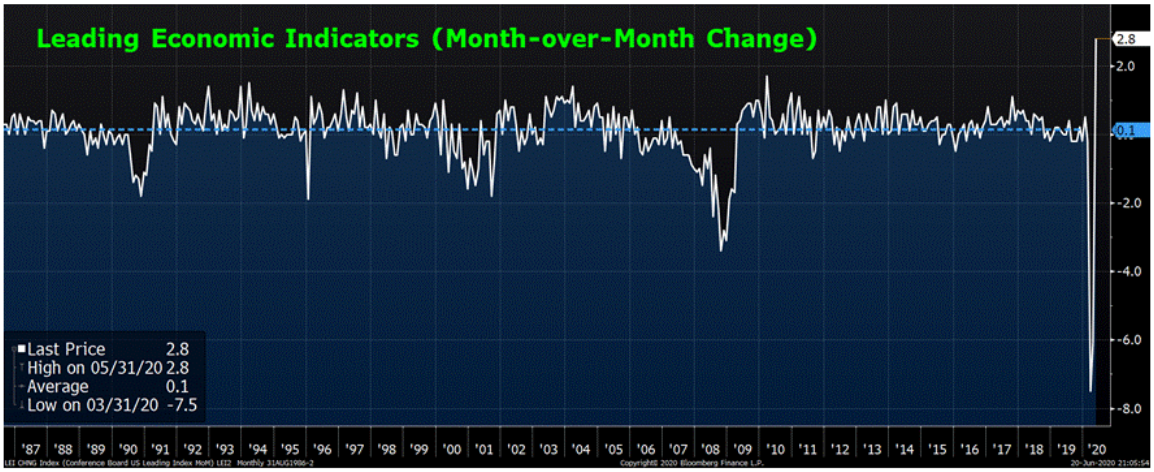
# THE PRUDENT SPECULATOR
## Forward-Looking May LEI = 2.8%

The forward-looking index of Leading Economic Indicators came in at +2.8% on a month-over-month basis in May, rebounding strongly from the April read of -6.1%. The Conference Board stated, "The relative improvement in unemployment insurance claims is responsible for about two-thirds of the gain in the index. The improvements in labor markets, housing permits, and stock prices also buoyed the LEI."




Of course, given how horrendous Q2 economic growth is likely to be…

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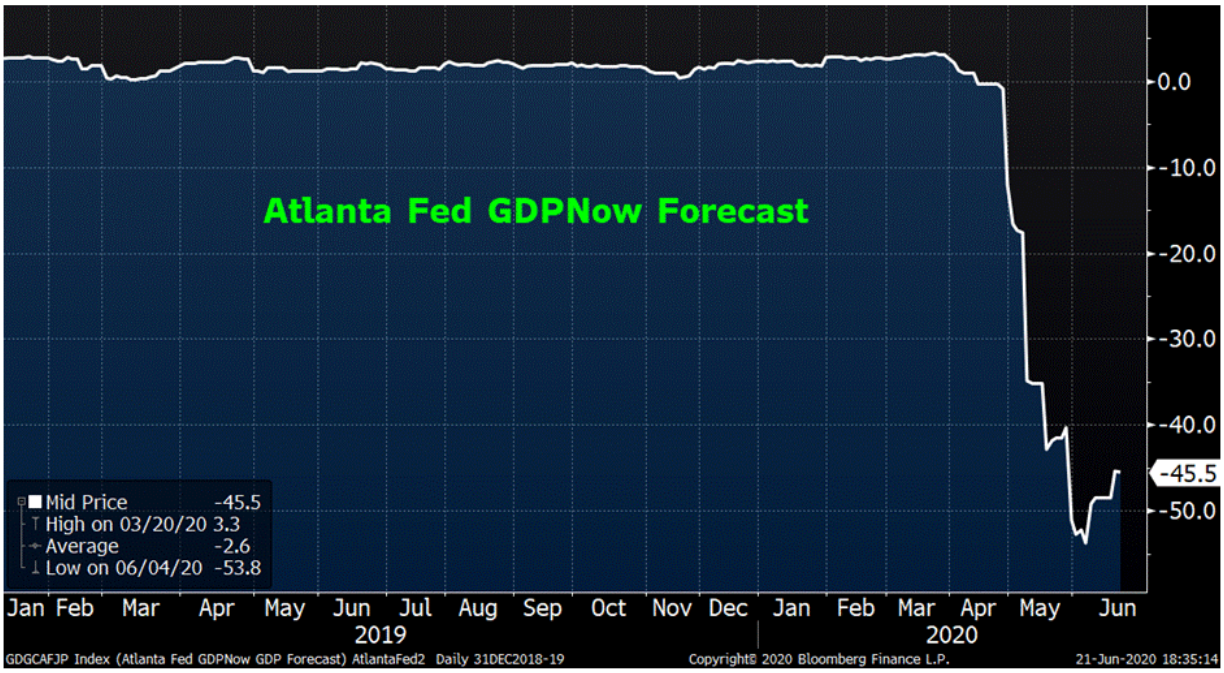
# THE PRUDENT SPECULATOR
## Monumentally Bad Q2 GDP Now Forecast

The estimate for the contraction is unbelievably bad, with the Atlanta Fed now projecting a near-halving of GDP in Q2 on an annualized basis.




…with unfathomable scores of Americans out of work,…

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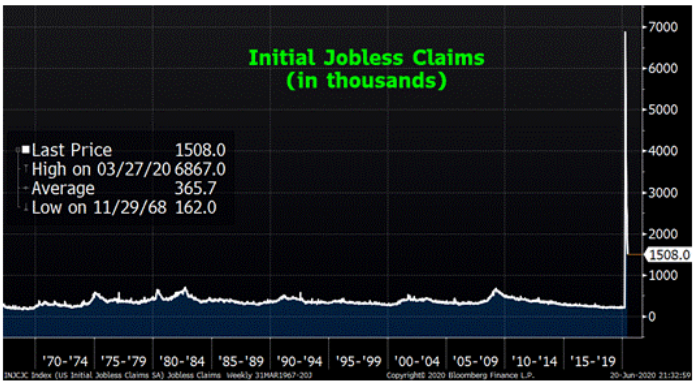
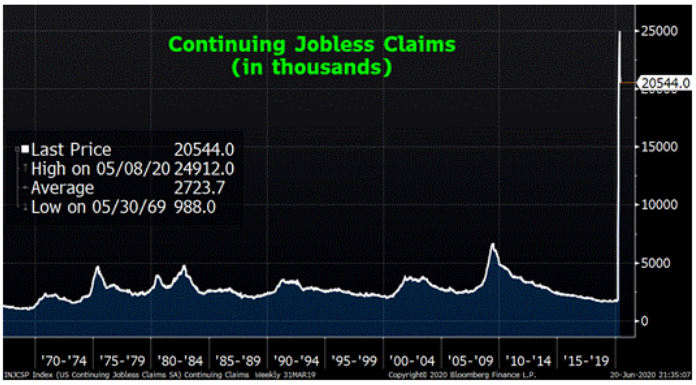
# THE PRUDENT SPECULATOR
## Terrible But Improving Labor Stats




The latest figures on first-time claims for jobless benefits saw a slight drop to 1.51 million. The weekly tally came in below expectations and the number is awful, but the trend has been improving. Of course, the sum of those still receiving unemployment assistance remained very elevated at 20.5 million. The count was higher at close to 25 million several weeks back, but the labor market is still highly problematic.

…it is not surprising that the Conference Board, the keeper of the LEI, was quick to add, "New orders in manufacturing, consumers' outlook on the economy, and the Leading Credit Index still point to weak economic conditions. The breadth and depth of the decline in the LEI between February and April suggest the economy at large will remain in recession territory in the near term."

Obviously, the economic outlook is highly uncertain,…

# Fed Vice Chair Richard H. Clarida: 6.16.20

***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, the pandemic has also inflicted a heavy toll on the levels of activity and employment in the U.S. economy, as a direct result of the necessary public health policies put in place to mitigate and control the spread of the virus. Real gross domestic product (GDP) declined at a 5% 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 reached a 50-year low of 3.5% as recently as February of this year, surged to 14.7% in April, an 80-year high. In May, there was a notable rebound in employment and decline in unemployment, and these developments are certainly welcome. Moreover, in recent weeks, some other indicators suggest a stabilization or even a modest rebound in some segments of the economy. But activity in many parts of the economy has yet to pick up, and GDP is falling deeply below its recent peak. And, of course, despite the improvements seen in the May jobs report, the unemployment rate, at 13.3%, remains historically high.***

***After the extreme turbulence witnessed in March, financial markets across many sectors have normalized and are again serving their essential role of intermediating flows of savings and investment among borrowers and lenders. Bank credit lines are providing liquidity to companies, and corporations with debt rated investment grade and high yield are able to issue, and in size, in the corporate bond market. I believe—and most outside observers agree—that this easing of financial conditions since March is, at least in part, the direct consequence of economic policy responses to the crisis, including the actions the Federal Reserve took at our March 15 meeting and the subsequent announcement and sequential launch of 11 new facilities to support the flow of credit to households and companies. While this easing of financial conditions is, of course, welcome to the extent that it supports the flow of credit to households and firms during this challenging period, it may not prove to be durable, depending on the course that the coronavirus contagion takes and the duration of the recession that it causes. At minimum, the easing of financial conditions is buying some time until the economy begins to recover.***

***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.***

…but the Federal Reserve provided another reminder last week of the support it is providing to the economy and the capital markets with the announcement that Jerome H. Powell, Richard H. Clarida & Co. "will begin buying a broad and diversified portfolio of corporate bonds to support market liquidity and the availability of credit for large employers."

Indeed, in our view, the Fed remains the friend of equity investors, at least for the foreseeable future. As Federal Reserve Vice Chair Richard H. Clarida concluded in his June 16 speech:

*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.*

Those forceful, proactive and aggressive actions by the Fed have included slashing interest rates to near zero, which we strongly argue continues to be a massive positive for equity prices, from an earnings and dividend perspective,…

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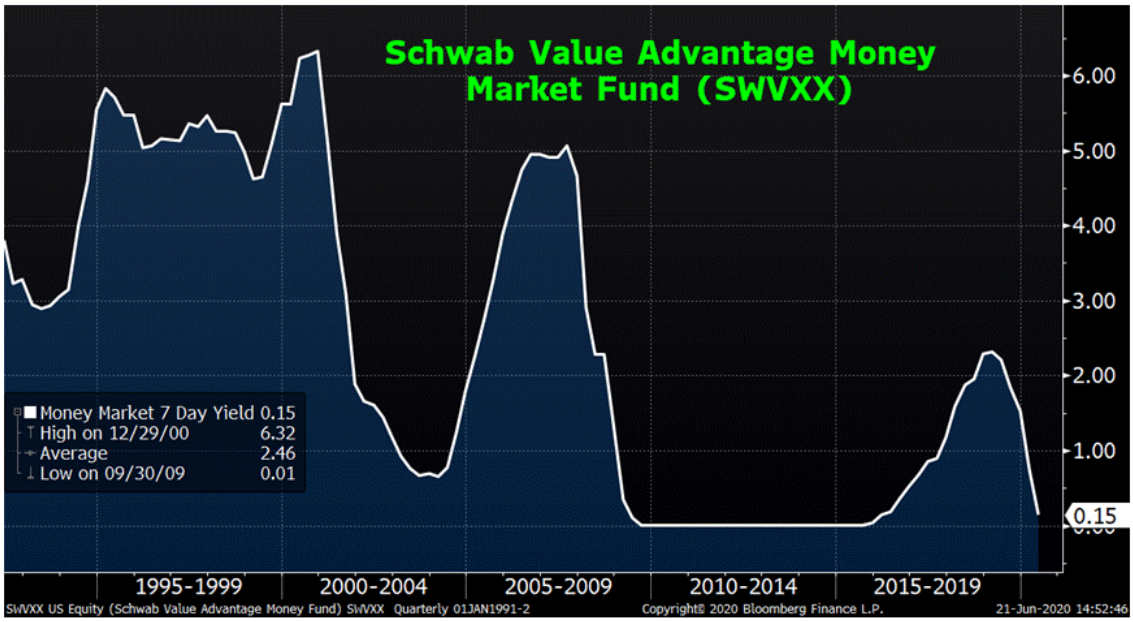
# THE PRUDENT SPECULATOR
## Interest Rates Very Supportive of Stocks

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 (4.62% vs. 0.69% 10-Year), with the S&P 500 dividend yield of 1.96% also very generous.


…not to mention when considering what folks might earn if they park their money in cash or government security money market funds, where yields are now 0.01%, with even the yield on "Prime" money markets a pittance.

# 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 0.15% today, similar but even larger than the drop from 1.38% on 12.31.08 to 0.34% on 3.31.09.




Despite those miserable yields, the masses have been piling into the proverbial mattress in an effort to keep their money safe,…

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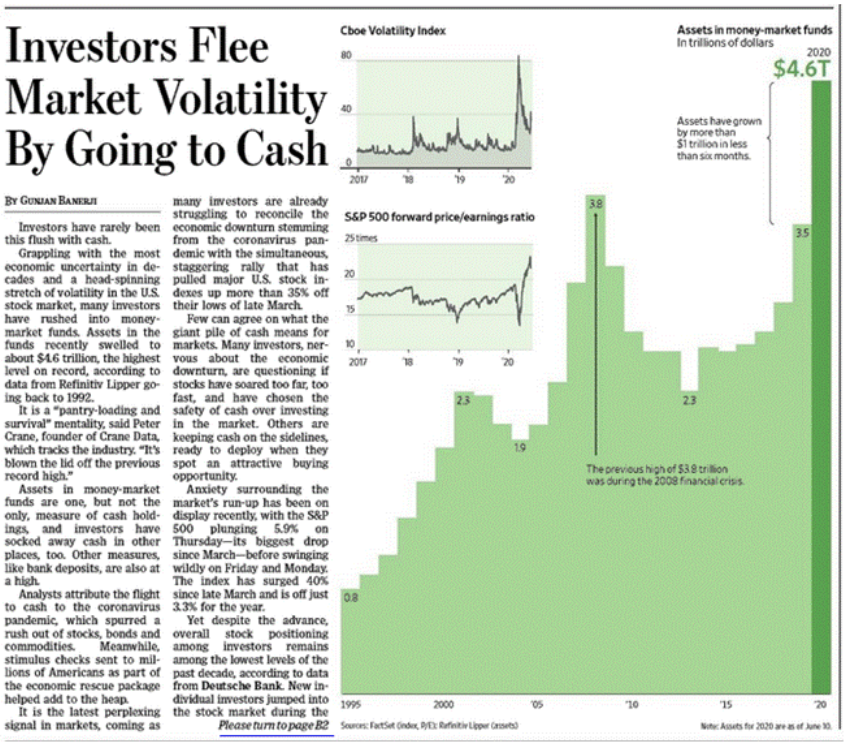
# THE PRUDENT SPECULATOR
## Money Market Assets Off the Charts



# Investors Flee Market Volatility By Going to Cash

By Gunjan Banerji

Investors have rarely been this flush with cash.

Grappling with the most economic uncertainty in decades and a head-spinning stretch of volatility in the U.S. stock market, many investors have rushed into money-market funds. Assets in the funds recently swelled to about $4.6 trillion, the highest level on record, according to data from Refinitiv Lipper going back to 1992.

It is a "pantry-loading and survival" mentality, said Peter Crane, founder of Crane Data, which tracks the industry. "It's blown the lid off the previous record high."

Assets in money-market funds are one, but not the only, measure of cash holdings, and investors have socked away cash in other places, too. Other measures, like bank deposits, are also at a high.

Analysts attribute the flight to cash to the coronavirus pandemic, which spurred a rush out of stocks, bonds and commodities. Meanwhile, stimulus checks sent to millions of Americans as part of the economic rescue package helped add to the heap.

It is the latest perplexing signal in markets, coming as many investors are already struggling to reconcile the economic downturn stemming from the coronavirus pandemic with the simultaneous, staggering rally that has pulled major U.S. stock indexes up more than 35% off their lows of late March.

Few can agree on what the giant pile of cash means for markets. Many investors, nervous about the economic downturn, are questioning if stocks have soared too far, too fast, and have chosen the safety of cash over investing in the market. Others are keeping cash on the sidelines, ready to deploy when they spot an attractive buying opportunity.

Anxiety surrounding the market's run-up has been on display recently, with the S&P 500 plunging 5.9% on Thursday—its biggest drop since March—before swinging wildly on Friday and Monday. The index has surged 40% since late March and is off just 3.3% for the year.

Yet despite the advance, overall stock positioning among investors remains among the lowest levels of the past decade, according to data from **Deutsche Bank**. New individual investors jumped into the stock market during the

*Please turn to page B2*



We remain perplexed by pundits who continue to assert that investors are irrationally exuberant about U.S. stocks. After all, as *The Wall Street Journal* reported on June 17, 2020, assets in money market funds are at record highs, soaring by more than $1 trillion this year.

…providing further debunking to the view expressed by some market watchers that investors are euphorically plowing money into U.S. stocks.

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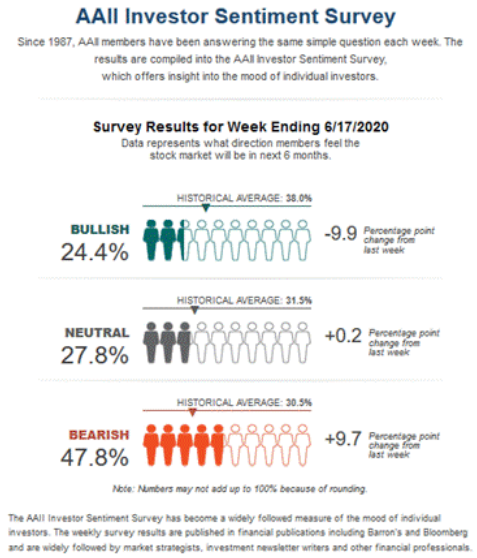
# THE PRUDENT SPECULATOR
## Sentiment: Little Enthusiasm for Stocks

After the week prior's big selloff, the latest Sentiment Survey of AAII members saw a plunge in Bulls and a spike in Bears.




The love affair with bonds continues, per the latest data from ICI, but mutual and exchange traded fund investors had a one-week buying binge in U.S. stocks, interestingly right before the big 7% drop in the Dow on 6.11.20.

**Combined Estimated Long-Term Fund Flows and ETF Net Issuance**

*Millions of dollars*

| Week Ended | 6/10/2020 | 6/3/2020 | 5/27/2020 | 5/20/2020 | 5/13/2020 |
|---|---|---|---|---|---|
| Total Equity | 13,052 | -11,138 | -2,362 | -13,728 | -10,760 |
| Domestic | 15,883 | -5,903 | 1,601 | -8,129 | -4,354 |
| World | -2,831 | -5,235 | -3,963 | -5,599 | -6,406 |
| Hybrid | 1,998 | 1,253 | 249 | -1,099 | -1,915 |
| Total Bond | 25,564 | 25,991 | 17,447 | 18,479 | 15,509 |
| Taxable | 21,378 | 22,884 | 15,508 | 16,173 | 14,572 |
| Municipal | 4,186 | 3,106 | 1,939 | 2,307 | 937 |
| Commodity | 197 | 1,527 | 822 | 1,953 | 1,214 |
| Total | 40,812 | 17,633 | 16,156 | 5,606 | 4,047 |

*Source: Investment Company Institute*

In fact, the latest AAII Investor Sentiment Survey just issued a contrarian buy signal for stocks,…

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# THE PRUDENT SPECULATOR
## AAII Sentiment – Contrarian Buy Signal

The big 9.9-point drop in Bullishness and sizable 9.7-point jump in Bearishness for the week ending 06.18.20 sent the AAII Bull-Bear Spread to a reading of -23.4, pushing the sentiment indicator back to the lowest decile, which history shows offers investors the best near-term returns!

**AAII Bull-Bear Spread**

| Decile | Low Reading of the Range | High Reading of the Range | Count | R3K Next 1-Week Arithmetic Average TR | R3K Next 1-Week Geometric Average TR | R3K Next 1-Month Arithmetic Average TR | R3K Next 1-Month Geometric Average TR | R3K Next 3-Month Arithmetic Average TR | R3K Next 3-Month Geometric Average TR | R3K Next 6-Month Arithmetic Average TR | R3K Next 6-Month Geometric Average TR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Below & Above Median Bull Bear Spread = 8.0 | | | | | | | | | | |
| BELOW | -54.0 | 8.0 | 878 | 0.25% | 0.22% | 1.21% | 1.07% | 3.28% | 2.90% | 6.37% | 5.66% |
| ABOVE | 8.1 | 62.9 | 837 | 0.15% | 0.13% | 0.43% | 0.34% | 1.81% | 1.55% | 4.49% | 4.00% |
| | Ten Groupings of 1715 Data Points | | | | | | | | | | |
| 1 | -54.0 | -15.0 | 172 | 0.50% | 0.43% | 1.98% | 1.73% | 4.98% | 4.43% | 8.46% | 7.30% |
| 2 | -14.9 | -7.2 | 171 | 0.33% | 0.30% | 0.98% | 0.85% | 3.27% | 2.93% | 6.18% | 5.45% |
| 3 | -7.2 | -1.3 | 172 | 0.38% | 0.35% | 1.48% | 1.38% | 3.14% | 2.74% | 6.76% | 6.12% |
| 4 | -1.2 | 3.0 | 174 | 0.04% | 0.00% | 1.04% | 0.95% | 2.75% | 2.40% | 6.02% | 5.51% |
| 5 | 3.0 | 8.0 | 189 | 0.05% | 0.02% | 0.61% | 0.52% | 2.37% | 2.12% | 4.62% | 4.10% |
| 6 | 8.1 | 12.0 | 151 | 0.09% | 0.06% | 0.40% | 0.27% | 1.58% | 1.34% | 5.08% | 4.67% |
| 7 | 12.0 | 16.4 | 171 | 0.17% | 0.15% | 0.55% | 0.45% | 2.29% | 2.03% | 4.93% | 4.39% |
| 8 | 16.4 | 22.0 | 177 | 0.16% | 0.15% | 0.67% | 0.60% | 1.93% | 1.65% | 5.72% | 5.30% |
| 9 | 22.0 | 29.2 | 166 | 0.07% | 0.05% | 0.25% | 0.16% | 1.84% | 1.56% | 4.14% | 3.55% |
| 10 | 29.2 | 62.9 | 172 | 0.26% | 0.24% | 0.26% | 0.19% | 1.36% | 1.13% | 2.60% | 2.16% |

*From 07.31.87 through 6.18.20. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg*

…even as we concede that the week prior's ICI data showing big inflows, finally, into U.S. stock mutual and exchange traded funds came with awful short-term market timing. Happily, we see little about which to be concerned looking at longer-term fund-flow data.

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# THE PRUDENT SPECULATOR
## Bonds Remain Stunningly Popular

With the S&P 500 having bounded back from the recent lows, many think folks are infatuated with U.S. equities, but data from the ICI show that Bonds, aside from a big hiccup in March, continue to garner all of the love, with money more or less consistently leaving domestic stocks.

**Investment Company Institute**

**Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows**

***Millions, U.S. dollars***

| Month | Stocks Domestic | Bonds Total | Month | Stocks Domestic | Bonds Total | Month | Stocks Domestic | Bonds Total | Month | Stocks Domestic | Bonds Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan-15 | -14,465 | 17,535 | Jun-16 | -15,530 | 16,623 | Nov-17 | -4,417 | 19,788 | Apr-19 | -5,307 | 40,565 |
| Feb-15 | 5,547 | 30,321 | Jul-16 | 292 | 33,575 | Dec-17 | -9,054 | 19,491 | May-19 | -24,652 | 21,332 |
| Mar-15 | -1,494 | 4,905 | Aug-16 | -9,956 | 30,859 | Jan-18 | 10,778 | 46,287 | Jun-19 | -11,997 | 39,771 |
| Apr-15 | -34,681 | 11,027 | Sep-16 | -5,713 | 24,669 | Feb-18 | -41,444 | 2,706 | Jul-19 | -7,889 | 44,811 |
| May-15 | -17,287 | 5,010 | Oct-16 | -23,109 | 13,855 | Mar-18 | -22,152 | 14,148 | Aug-19 | -29,909 | 22,304 |
| Jun-15 | -7,023 | 6,324 | Nov-16 | 22,993 | -13,289 | Apr-18 | -7,403 | 24,176 | Sep-19 | -4,650 | 38,482 |
| Jul-15 | -14,864 | -1,255 | Dec-16 | 18,859 | -4,142 | May-18 | 10,068 | 11,749 | Oct-19 | -24,646 | 43,187 |
| Aug-15 | -18,569 | -18,122 | Jan-17 | 5,097 | 31,037 | Jun-18 | -21,004 | 16,995 | Nov-19 | -11,677 | 44,480 |
| Sep-15 | -4,725 | -10,849 | Feb-17 | 17,613 | 33,991 | Jul-18 | 1,007 | 22,495 | Dec-19 | -27,502 | 50,733 |
| Oct-15 | -807 | 15,397 | Mar-17 | 9,411 | 36,562 | Aug-18 | -6,660 | 17,219 | Jan-20 | -24,546 | 73,855 |
| Nov-15 | 654 | -5,573 | Apr-17 | -8,266 | 22,064 | Sep-18 | 886 | 18,526 | Feb-20 | -28,222 | 25,064 |
| Dec-15 | 476 | -25,043 | May-17 | -10,725 | 33,070 | Oct-18 | -9,657 | -27,700 | Mar-20 | -7,487 | -273,714 |
| Jan-16 | -27,222 | 7,686 | Jun-17 | -7,944 | 29,372 | Nov-18 | 2,783 | -7,459 | Apr-20 | 2,661 | 14,476 |
| Feb-16 | -9,108 | 11,915 | Jul-17 | -12,518 | 29,139 | Dec-18 | -28,953 | -49,512 | May-20 | -12,305 | 69,553 |
| Mar-16 | 7,711 | 29,296 | Aug-17 | -22,771 | 25,078 | Jan-19 | -21,195 | 29,308 | Jun-20 | 1,914 | 51,555 |
| Apr-16 | -12,610 | 22,114 | Sep-17 | -9,775 | 33,440 | Feb-19 | 3,632 | 45,138 | | | |
| May-16 | -14,252 | 16,925 | Oct-17 | 3,166 | 36,110 | Mar-19 | -3,654 | 38,412 | **Totals:** | **-574,248** | **1,077,847** |

No doubt, COVID-19 headlines will drive near-term equity market movements, so we remain braced for downside volatility, but with interest rates so low we can't help but remain optimistic about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks.

While fixed income investments generally boast lower volatility than equities, it is nice to see the historical odds of Value Stocks and Dividend Payers outperforming the current 0.69% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

**PATIENCE IS VIRTUOUS**

**VALUE STOCKS**

| | Count >0.69% | Count <=0.69% | Percent >0.69% |
|---|---|---|---|
| 1 Month | 697 | 417 | 62.6% |
| 3 Months | 743 | 369 | 66.8% |
| 6 Months | 777 | 332 | 70.1% |
| 1 Year | 802 | 301 | 72.7% |
| 2 Year | 908 | 183 | 83.2% |
| 3 Year | 940 | 139 | 87.1% |
| 5 Year | 940 | 115 | 89.1% |
| 7 Year | 991 | 40 | 96.1% |
| 10 Year | 960 | 35 | 96.5% |
| 15 Year | 931 | 4 | 99.6% |
| 20 Year | 875 | 0 | 100.0% |

**DIVIDEND PAYERS**

| | Count >0.69% | Count <=0.69% | Percent >0.69% |
|---|---|---|---|
| 1 Month | 699 | 415 | 62.7% |
| 3 Months | 763 | 349 | 68.6% |
| 6 Months | 793 | 316 | 71.5% |
| 1 Year | 822 | 281 | 74.5% |
| 2 Year | 916 | 175 | 84.0% |
| 3 Year | 910 | 169 | 84.3% |
| 5 Year | 954 | 101 | 90.4% |
| 7 Year | 981 | 50 | 95.2% |
| 10 Year | 956 | 39 | 96.1% |
| 15 Year | 933 | 2 | 99.8% |
| 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**

Jason Clark, Chris Quigley and Zach Tart look at several of our companies that posted quarterly results or had other news that impacted their respective Target Prices 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/.

Despite reporting a very strong quarter and offering a more robust outlook for the rest of the year than was put forth back in April, shares of **Kroger Co.** (KR – $32.24) were essentially flat last week. The grocery store operator said that it earned $1.22 per share in the period, versus the expected $1.00, and recorded revenue of $41.6 billion, compared to the consensus analyst estimate of $40.3 billion. Same store sales, excluding fuel, jumped 19% versus the consensus estimate of +13.6% (and vs. +1.5% in the same quarter a year ago). The grocer's digital sales continued to benefit from social distancing mandates, jumping 92%.

CEO Rodney McMullen commented, "The COVID-19 pandemic and the most recent instances of racial injustice have changed our country in unmistakable ways, not the least of which is the devastating loss of life and livelihood that has affected so many Americans. Kroger remains guided by our purpose and our values. I am proud of our associates who stepped up when we

were called to be there for our customers, communities and each other. Our company is proud to stand with our Black associates, customers and communities against racism and for a more just and equitable society…Under Restock Kroger, we have made significant investments over the last several years to establish a seamless digital ecosystem, strengthen Our Brands and our personalization capabilities, and to enhance product freshness and quality. These investments helped Kroger deliver improved results in 2019, a strong start to the quarter, and very much came to the forefront as we provided our customers with the fresh food and essentials they have needed during the pandemic."

Management said that Kroger's net total debt to adjusted EBITDA ratio is now 1.81, compared to 2.54 a year ago and a target range of 2.30 to 2.50. The company held temporary cash investments of approximately $2.3 billion as of the end of the quarter, reflecting better operating performance and significant improvement in working capital.

CFO Gary Millerchip added, "The COVID-19 pandemic has dramatically changed the outlook for food retail in 2020 and we continue to monitor, evaluate and adjust our plans to address the impact to our business. There are still many unknown factors related to the long-term impact of COVID-19 that could influence our financial results for the remainder of 2020, such as: continued investments to help our customers and associates, uncertainty surrounding consumer behavior, restrictions and what will be the new normal, and potential long-term shift in customers eating more food at home."

Mr. Millerchip continued, "In recognition of these factors, it is difficult to predict specific outcomes and as such Kroger is not reaffirming or providing new 2020 guidance. While we expect to exceed the outlook shared in our April 1 business update for identical sales without fuel, adjusted FIFO operating profit, adjusted EPS and adjusted free cash flow, the company is not able to forecast the extent of such upside for the reasons mentioned above. Kroger's financial model has proven to be resilient throughout the economic cycle. We remain confident in our business model as well as our ability to generate strong free cash flow and achieve sustainable and attractive total shareholder returns."

While competition remains stiff in the grocery space, we like that Kroger continues to remake itself and has moved more in the direction of being offensive versus defensive/reactive. Competitive headwinds won't die down anytime soon, but we are pleased to see the continued progress being made, and we believe there is more upside to be offered in KR shares. The stock trades a bit below 12 times NTM adjusted EPS projections and its dividend yield of 2% is still attractive. In addition, with American shoppers continuing to buy groceries as they eat at home more during the COVID-19 pandemic, the cash registers are likely to keep on ringing a little more rapidly. Our Target Price for KR has been boosted to $39.

System software firm **Oracle** (ORCL – $54.40) posted earnings per share of $1.20, versus the $1.15 estimate, in fiscal Q4 2020. ORCL had sales of $10.4 billion (vs. $10.7 billion est.). Illustrating yet again the inefficiencies in the equity markets, shares slipped 5.6% following the announcement, but quickly recovered and actually ended the full trading week with a nearly 5% gain. Despite sending virtually all of its global workforce home to work, ORCL was able to

make significant improvements for critical customers including HHS, the CDC and National Red Cross, which had huge jumps in traffic.

CEO Safra Catz said, "As we saw the pandemic begin to take hold, we acted swiftly to lower our operating expenses by 8%. Non-GAAP operating income was $5.1 billion, down slightly from last year; and the operating margin was 49%, up 2% from last year. As a reminder, to take advantage of very favorable interest rates, we issued $20 billion in debt in the quarter. Now for the full fiscal year, total Cloud Services and License Support revenue was $27.4 billion, up 4% and accounting for 70% of total company revenue, up from 68% last year. Total company revenue for the year were $39.1 billion, up slightly in constant currency. Non-GAAP EPS was $3.85 in USD, up 9% and up double digits for the third consecutive year at 11% in constant currency. The full year operating margin percentage was up slightly at 44%, and I expect we will see record margins in the coming years as our revenue growth accelerates and we benefit from greater scale in the cloud. Operating cash flow over the last 4 quarters was $13.1 billion."

Ms. Catz continued, "We are confident in our growth because our mix of business is becoming increasingly favorable. Our revenue is now clearly in one of 3 distinct groups: one growing, one stable and one declining. What I see is that while overall revenue growth has averaged around 1% to 2% over the last few years, underneath, the growing businesses have grown at a 30% compound annual growth rate, the declining businesses averaged almost double-digit decline and our stable businesses were up 1% or 2%. We are now at a point where our growing businesses are now larger than our declining businesses. And this favorable shift will inevitably drive revenue acceleration going forward."

Oracle Founder Larry Ellison highlighted some of the advantages of Oracle's systems versus the competition, "Most people don't believe that Oracle has the fastest cloud and the lowest-cost cloud. But when you come here and try it, that's exactly what you find out. And you're just seeing the beginning of that happening. And I think a bunch of people were shocked that Zoom picked Oracle. I think Zoom was shocked when they looked at the results after they moved their application to Oracle. And we were faster, much faster, and we were much less expensive and we were more secure. So we think as people compare our cloud, our infrastructure, our second-generation infrastructure, to AWS and Azure and the rest, they're going to pick our cloud. They just have to come look as opposed to just assuming, 'Hey, AWS is bigger so they must be better. Azure is bigger so they must be better.' Once they look, we win…And we think we're going to get the lion's share of our installed base, our database installed base, moving to our cloud. If I'm right, if that's right, our Infrastructure Cloud business is gigantic. We have hundreds of thousands of database customers, including all the largest companies and governments on the planet Earth."

ORCL repurchased 107 million shares for a total of $5.2 billion throughout the quarter, bringing purchases over the last 12 months to 361 million shares for a total of $19.2 billion and reducing the total share count by 40% over the past 10 years. The Board of Directors declared a quarterly dividend payment of $0.24, consistent with the amount paid the last few quarters. ORCL expects total revenue to grow between 0% and 2% in constant currency, while EPS is expected to grow 5% to 9% ($0.85 to $0.89).

We remain encouraged by recent successes and we believe that ORCL still has the right leadership team in place as the business adapts to a dynamic cloud business. We have been pleased with ORCL's execution despite the work-from-home restrictions, and we think that increased importance of remote work will continue to benefit ORCL. While there have been missteps and challenges along the way, we have always liked ORCL's relentless pursuit of the #1 spot in any competition. We think that ORCL shares remain attractive, trading for 13 times forward earnings and currently yielding 1.8%. Our Target Price has been bumped up to $64.

Electronic manufacturing services firm **Jabil** (JBL – $33.51) earned $0.37 per share in fiscal Q3 2020 (vs. $0.34 est.). JBL had total revenue of $6.3 billion, versus the $5.6 billion estimate. Shares rose 2.2% following the announcement and nearly 9% for the week, as Jabil was propelled by strong demand in health care and packaging, cloud, edge devices and mobility. The company also reshuffled some of its production lines to produce critical supplies such as ventilators, specialized manifolds, face shields, 3D-printed components, protective masks and test kits.

CEO Mark Mondello said, "As we sit here today, the impact of COVID will cost us roughly $160 million to $170 million for fiscal year '20. Therefore, we're taking aggressive actions to reshape the organization and ready ourselves for fiscal '21. We'll reduce our workforce, and in return, lower our cost structure by roughly $50 million. It's important to note that throughout this macro uncertainty, we remain steadfast in prioritizing free cash flow and expanding core operating margins. You can be assured that we're navigating today's issues while being thoughtful about tomorrow's challenges. Looking ahead, I believe our business landscape and how we choose to conduct our business may look and feel a bit different. It will possibly be more efficient. It will possibly be more optimized. I think this could have real benefits as long as we don't lose a single ounce of our customer intimacy, or customer care. Also, I believe key secular trends will remain and remain in our favor."

CFO Michael Dastoor detailed, "Putting it all together at an enterprise level, demand largely held in Q3. However, the makeup of this demand varied extensively by end market and region as the COVID-19 outbreak and stay-at-home orders around the world impacted each in a unique way. Turning now to our Q3 financial results. The combination of our ability to largely remain open, efficiently navigates for factory shutdowns, and the diverse nature of our end markets allowed us to deliver $6.3 billion in net revenue during the quarter, in line with internal forecasts. To me, this is a meaningful and further illustration that our diversification strategy is working… With the success in diversifying the business, we feel it is an appropriate time, especially amidst the current economic landscape, to take steps to proactively optimize our cost structure and improve operational efficiencies. Therefore, during Q3, we've taken steps to reduce our worldwide workforce… We repurchased approximately 800,000 shares for $21 million in Q3, bringing our total year-to-date repurchases to $190 million. Turning now to our fourth quarter guidance that includes approximately $45 million to $55 million in COVID-19 related costs. Core operating income is estimated to be in the range of $145 million to $245 million. Core diluted earnings per share is estimated to be in the range of $0.46 to $0.86. GAAP diluted earnings per share is expected to be in the range of $0.04 to $0.50."

Despite the obstacles presented by COVID-19, our confidence in Jabil's ability to execute its business plan remains. And, although demand in the current environment remains challenged, the firm is positioned to benefit from intermediate to long-term tailwinds in Cloud, 5G and the electrification of automobiles. Analysts expect reduced earnings in fiscal 2020 (one quarter left) near $2.60, but they are expected to grow to $3.48 in 2021. The company's demonstration of strong performance across a diversified business platform, reasonable valuation (9.6 times 2021 EPS) and generous capital return program are positives, and we have nudged up our Target Price to $48.

Cruise operator **Carnival Corp** (CCL – $17.83) revealed in its second quarter financial results furnished last week that it lost $3.30 per share as operations were on pause for much of the period. The $1.95 EPS loss expected by analysts appeared to be a wild guess given the firm's negligible revenue ($0.7 billion vs $4.8 billion a year ago), while even Carnival management has stated that it is unable to provide an earnings forecast. Liquidity remains the focal point, as management expects to burn through $650 million per month in the second half of the year as it strives to rein in costs. In addition, preliminary agreements for the divestment of six ships in the next 90 days have been entered with the potential for additional agreements in the near-term.

Despite the obviously difficult hurricane into which Carnival has been sailing, and a significant pullback from rebound highs, shares have more than doubled since the announcement in early April of various financing arrangements to raise additional debt and equity capital, and the purchase of an 8.2% equity stake by the sovereign wealth fund of Saudi Arabia. Total liquidity for general purposes currently sits at $7.6 billion, with an additional $8.8 billion of export credit facilities to fund ship deliveries originally planned through 2023.

And it looks like the rough seas will extend a while longer. In a statement on Friday afternoon, Cruise Lines International Association said that its member cruise lines, including Carnival, have decided to "voluntarily extend the period of suspended passenger operations. The current No Sail order issued by the [CDC] will expire on July 24, and although we had hoped that cruise activity could resume as soon as possible after that date, it is increasingly clear that more time will be needed to resolve barriers to resumption in the United States…We are confident that future cruises will be healthy and safe, and will fully reflect the latest protective measures, as we also feel that it is appropriate to err on the side of caution to help ensure the best interests of our passengers and crewmembers. We have therefore decided to further extend our suspension of operations from U.S. ports until September 15. The additional time will also allow us to consult with the CDC on measures that will be appropriate for the eventual resumption of cruise operations." According to posts by the firm on social media, Carnival will begin to notify its guests and travel agent partners on Monday with details of its specific plans.

No doubt, global travel in general and cruising specifically has been upended as a result of COVID-19. Even once cruising eventually resumes, short-term shifts in consumer behavior are likely to pressure pricing and yields, while higher spend to implement cleanliness and health protocols ought to reduce profitability. That said, we are still of the mind that Carnival's brand and financial position are strong enough to weather the unprecedented turbulent waters through which the company continues to sail.

And, with customer deposits balance of $2.4 billion slated for cruises beyond 2020, we still believe long-term demand will remain intact. CCL management said on Thursday, "As of May 31, 2020, cumulative advanced bookings for the full year of 2021 capacity currently available for sale are within historical ranges at prices that are down in the low to mid-single digits range including the negative yield impact of FCCs and onboard credits applied, on a comparable basis. For the full year of 2021, booking volumes for the six weeks ending May 31, 2020, were running meaningfully behind the prior year. However, the company saw an improvement in booking volumes for the six weeks ending May 31, 2020 compared to the prior six weeks."

As all of our companies jockey for a place in our diversified portfolios, we continue to evaluate CCL against other opportunities in our universe, but for now we are content to hold our shares for a revised Target Price of $24.

Shares of Biogen (BIIB – $271.00) opened trading roughly 6% lower on Thursday as a West Virginia District Court ruled against the firm in a patent suit brought by Mylan Inc. related to its blockbuster Multiple Sclerosis drug Tecfidera. The court stated that certain claims of the relevant '514 patent are invalid for "lack of written description." Granted in 2013, the patent offered exclusivity through 2028 and was the last protection remaining since the other Tecfidera patent was set to expire in June 2020.

The MS franchise, with Tecfidera as its star, represented 39% of 2019 product sales, so an earlier-than-expected loss of patent protection would be a big deal. Not surprisingly, Biogen will appeal, even as Mylan is said to be eager to launch its generic alternative later in the year. No doubt, plenty of legal fees will be racked up before all is said and done, and this is certainly a tough blow for Biogen as the firm's future seemingly becomes characterized more and more by a pipeline of high risk/high reward neurological therapies.

Of these, Alzheimer's drug aducanumab possibly represents the most potential. The most recent 10-Q filing offered this update on Aducanumab (AB mAb): "During the first quarter of 2020 we initiated the EMBARK global re-dosing clinical study, which is designed to evaluate aducanumab, an anti-amyloid beta antibody candidate for the potential treatment of AD that we are developing in collaboration with Eisai Co., Ltd. (Eisai), in eligible AD patients who were actively enrolled in aducanumab studies (PRIME, EVOLVE, EMERGE and ENGAGE) in March 2019. In April 2020 we announced that we currently expect to complete the U.S. filing for aducanumab in the third quarter of 2020."

Certainly, aducanumab would be a home run if it passes muster, but we note that Biogen's balance sheet is strong, while the revenue stream apart from Tecfidera remains diversified and generates significant free cash flow. Although we remain vigilant and aware of the risks, we continue to be patient, given a BIIB valuation well below that of peers. Our Target Price has been trimmed to $448, but the stock presently trades for just 7.6 times earnings and it is hard to imagine the company not being snapped up by an acquirer if the shares continues to reside in the discount bin.