Market Commentary Monday, July 6, 2020

July 5, 2020

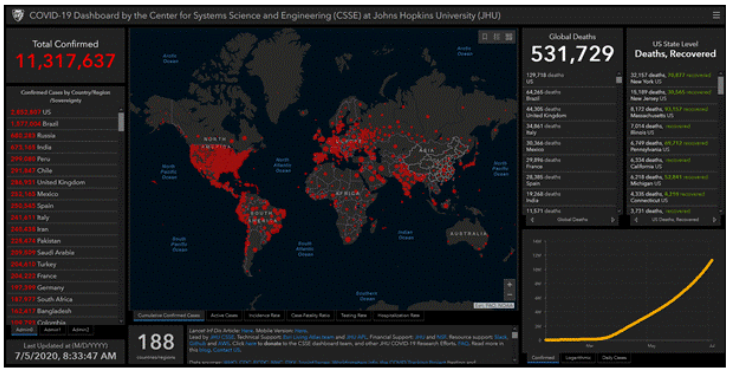
EXECUTIVE SUMMARY

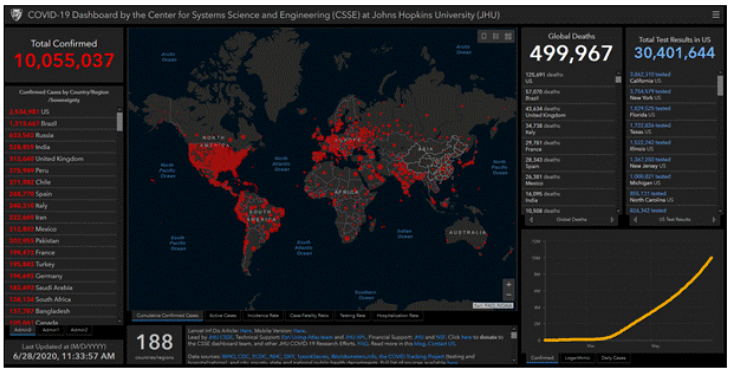
July Newsletter – *TPS 645* Posted Late Thursday Evening
COVID-19 – Spike in Cases
Econ Outlook – Better-than-Expected Numbers
Powell on Capitol Hill – Fed Chair Sober in his Remarks; Fed Likely to Remain Highly Accommodative
Week in Review – Vaccine News Spurs 3% to 4% Gains
Historical Perspective – Lots of Frightening Events Overcome in the Fullness of Time
Profit Outlook – Significant EPS Recovery Likely in 2021
Interest Rates – Hugely Supportive of Equities
Sentiment – Very Little Enthusiasm for Stocks; Major Infatuation with Bonds
Stock News – Updates on Banks, AMGN, MU and FDX

Market Review

We hope that readers had a chance to peruse the July edition of *The Prudent Speculator* and that all had a safe 4th of July weekend. Here in Southern California, fireworks shows were cancelled and beaches closed in an effort to discourage residents and visitors from congregating amidst a spike in coronavirus diagnoses. Alas, the Golden State, along with populous Texas and Florida, not to mention more than a few other states, have seen a sizable pickup in the number of confirmed COVID-19 cases, with the U.S. "official" tally rising by more than 300,000 over the past seven days, even as the daily domestic death count was measured in hundreds rather than thousands.

COVID-19 GLOBAL SPREAD





https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

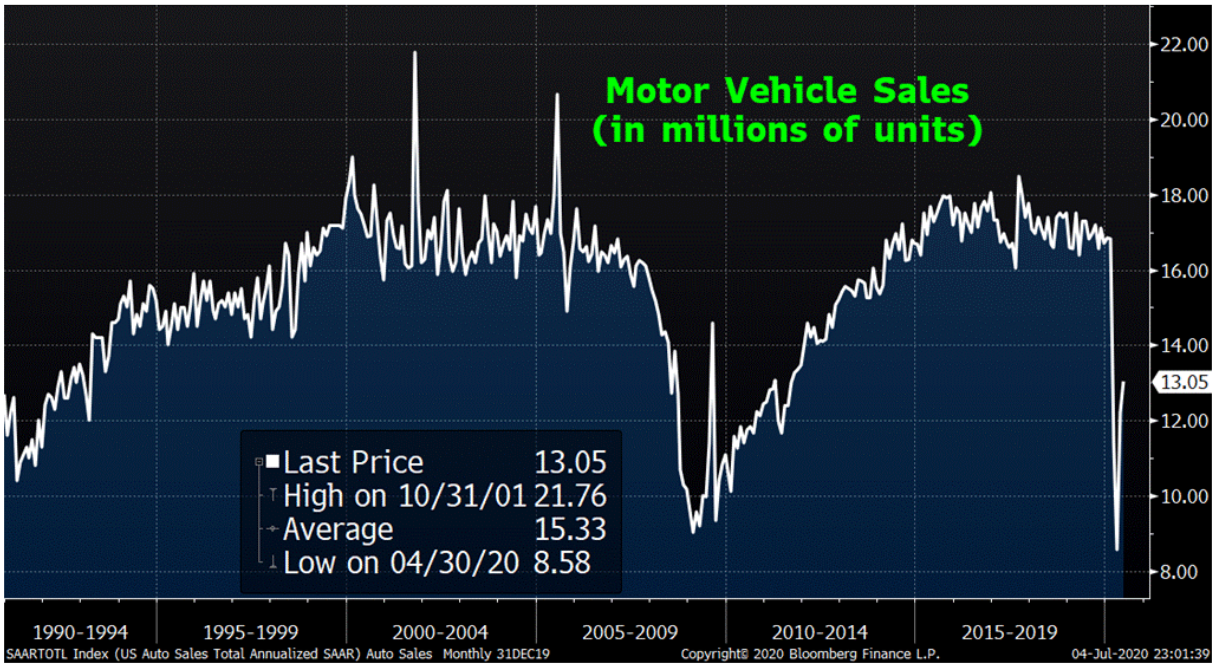
With access to testing markedly higher, there was a jump of 1.2 million in global Covid-19 confirmed cases in the latest week. Case counts have risen as economies have reopened and social distancing has waned, and the U.S. is now up to more than 129,000 fatalities. Certainly, we understand that deaths lag cases, so we have to expect a marked increase in the former over the next few weeks, but the global mortality increase over the last seven days equaled 6.4%, down from 7.3% the week prior and 8.0% the week before that.

To be sure, it was not just holiday celebrations that were quashed, as elected officials across the country rescinded or modified reopening plans, casting doubt about the strength of the budding economy recovery that has seen a significant pick-up in auto sales,…

THE PRUDENT SPECULATOR

AUTO SALES CONTINUE TO REBOUND: 0.8 MILLION UNIT JUMP IN JUNE

While the June annualized run rate for car and truck sales of 13.0 million units is terrible relative to data from the last several years, the total marked a huge improvement over April's 8.6 million level.

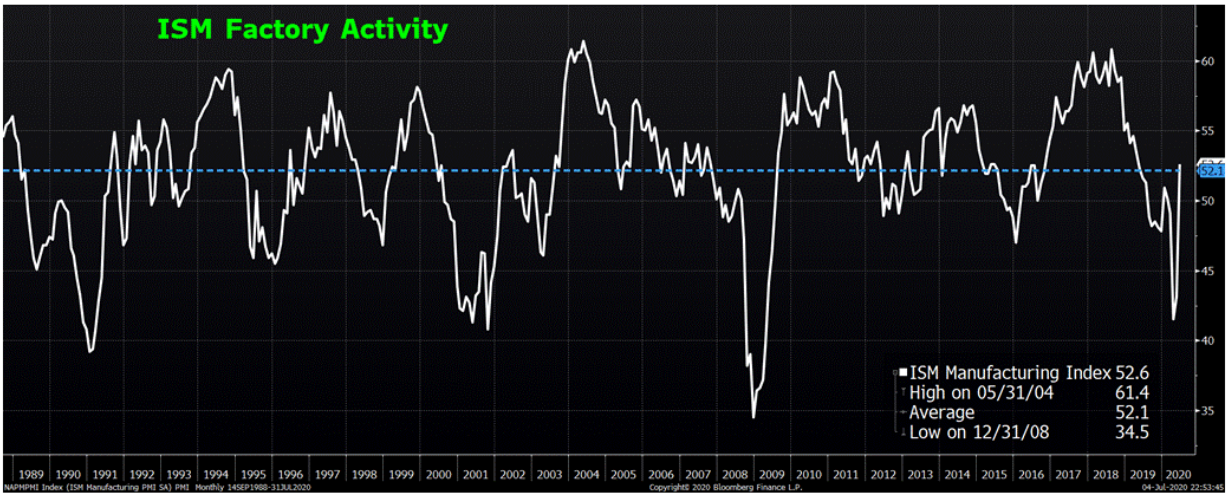


…and the outlook for manufacturing.

THE PRUDENT SPECULATOR

ISM MANUFACTURING ROCKETS: 2.9% ANNUALIZED GDP GROWTH

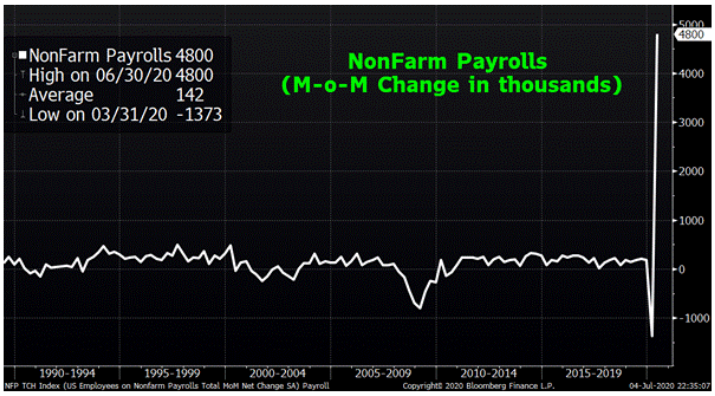
The latest read on the health of the manufacturing sector soared to a better-than-expected 52.6 in June, recovering further from the 11-year-low of 41.5 set two months prior, with the Institute for Supply Management stating, "The past relationship between the PMI and the overall economy...corresponds to a 2.9% increase in real gross domestic product (GDP) on an annualized basis."

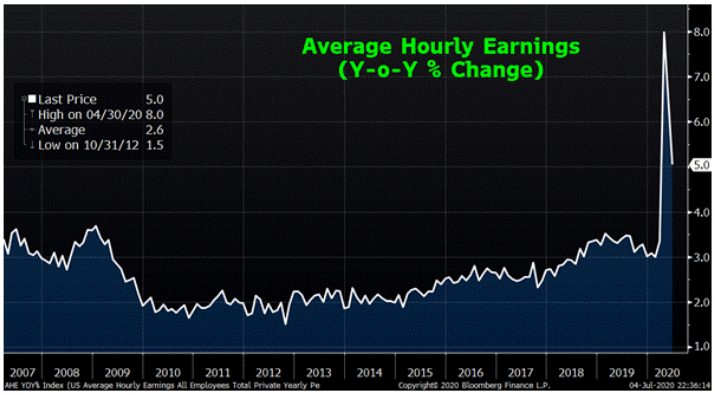


Given that many were convinced a few months ago that Great Depression II was around the bend, the resilience of the U.S. economy has been very impressive, as evidenced by Thursday's spectacular Employment Situation report.

THE PRUDENT SPECULATOR

TERRIFIC (VS. EXPECTATIONS) EMPLOYMENT SITUATION REPORT



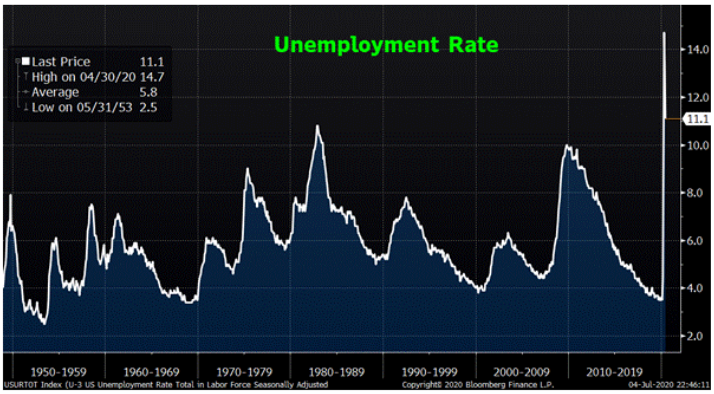


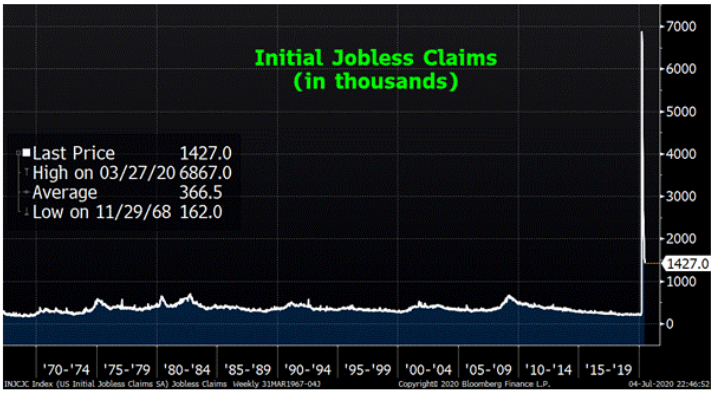
Economists expected a big number in terms of job created, but the June payrolls increase of 4.8 million blew away forecasts of a gain of 3.7 million and continued to reverse April's massively bad negative 20.7 million figure. Given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 5.0% on a year-over-year basis.

True, it is hard to get excited about a double-digit-percentage jobless rate as there are still millions of Americans out of work,…

THE PRUDENT SPECULATOR

AWFUL (BUT IMPROVING) JOBLESS NUMBERS





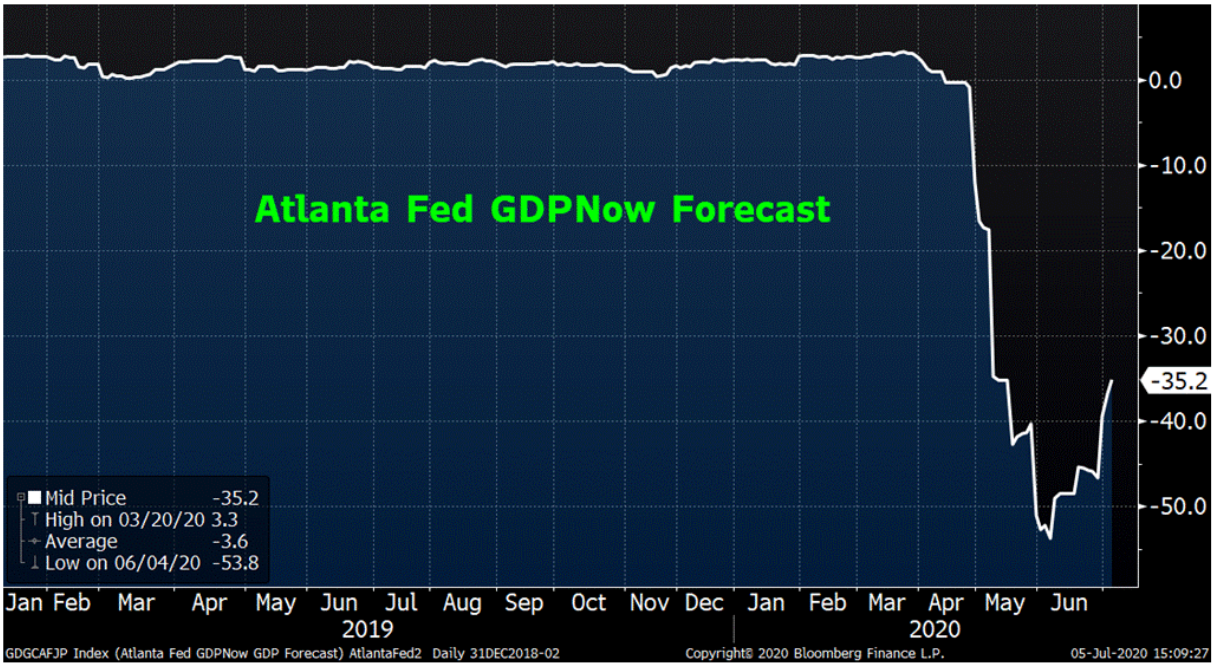
While questions remain about the calculation methodology, the jobless rate for June came in better than expected at 11.3%, continuing to improve from April's record 14.7% level. Tempering that relative good news, first-time filings for unemployment benefits continue to be massive, with 1.43 million claims in the latest week, bringing the total for the last 15 weeks to more than 48 million.

…but the economic outlook clearly has improved over the last month or so.

THE PRUDENT SPECULATOR

HORRIBLE, BUT RAPIDLY RISING Q2 GDP FORECAST

The estimate for the contraction is unbelievably bad, with the Atlanta Fed now projecting a 35.2% drop in GDP for Q2 on an annualized basis, but the figure has been steadily moving higher over the last several weeks.



Certainly, that does not mean that life is grand, with Jerome H. Powell offering sobering testimony last week on Capitol Hill: “Output and employment remain far below their pre-pandemic levels. The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities.”

FED CHAIR JEROME H. POWELL: JULY 2, 2020

Coronavirus and CARES Act Before the Committee on Financial Services, U.S. House of Representatives

We meet as the pandemic continues to cause tremendous hardship, taking lives and livelihoods both at home and around the world. This is a global public health crisis, and we remain grateful to our health-care professionals for delivering the most important response, and to our essential workers who help us meet our daily needs. These dedicated people put themselves at risk day after day in service to others and to our country.

Beginning in March, the virus and the forceful measures taken to control its spread induced a sharp decline in economic activity and a surge in job losses. Indicators of spending and production plummeted in April, and the decline in real gross domestic product, or GDP, in the second quarter is likely to be the largest on record. The arrival of the pandemic gave rise to tremendous strains in some essential financial markets, impairing the flow of credit in the economy and threatening an even greater weakening of economic activity and loss of jobs.

The crisis was met by swift and forceful policy action across the government, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This direct support is making a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.

As the economy reopens, incoming data are beginning to reflect a resumption of economic activity: Many businesses are opening their doors, hiring is picking up, and spending is increasing. Employment moved higher, and consumer spending rebounded strongly in May. We have entered an important new phase and have done so sooner than expected. While this bounceback in economic activity is welcome, it also presents new challenges—notably, the need to keep the virus in check.

While recent economic data offer some positive signs, we are keeping in mind that more than 20 million Americans have lost their jobs, and that the pain has not been evenly spread. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African Americans and Hispanics. This reversal of economic fortune has caused a level of pain that is hard to capture in words as lives are upended amid great uncertainty about the future.

Output and employment remain far below their pre-pandemic levels. The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities.

Despite the Fed Chair's subdued remarks, U.S. stocks turned in a very good holiday-shortened week, no doubt thanks to reports that an experimental COVID-19 vaccine being developed by the drug giant **Pfizer** (PFE – $34.51) and the biotech firm BioNTech spurred immune responses in healthy patients. In addition, another biotech company, Inovio, said that its vaccine candidate led to "immunological response rates" in 34 of 36 patients in a Phase 1 trial.

The major market averages turned in impressive gains of 3% to 4% over the four trading days just ended, bouncing back from losses of similar magnitude the week prior and continuing to confound many market pundits who somehow think that stock prices are only dependent on short-term news and that few are capable of looking beyond the scary headlines.

THE PRUDENT SPECULATOR

LOTS OF FRIGTENING EVENTS

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	35960%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	20767%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	18654%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	7246%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	7930%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5752%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4396%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4049%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3296%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4372%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2875%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3087%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2520%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1833%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1179%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1292%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	890%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	731%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	660%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	606%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	585%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	519%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	257%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	226%
Clinton Impeachment Proceeding	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	154%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	133%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	224%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	242%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	187%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	161%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	363%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**4231%**

As of 7.2.20. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Time will tell how the COVID-19 Pandemic and Great Lockdown are remembered in terms of equity market disruption and ultimate recovery, but history is filled with plenty of disconcerting events. Happily, those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

The equity market has long been an anticipatory mechanism, with information quickly discounted often via violent reactions, but the long-term trend in prices has been higher,…

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%	110.8%	973	27	3.4	3/23/2020	6/8/2020
17.5%	66.4%	568	39	2.4	3/23/2020	6/8/2020
15.0%	66.2%	553	45	2.1	3/23/2020	6/8/2020
12.5%	44.1%	332	72	1.3	3/23/2020	6/8/2020
10.0%	34.7%	243	98	0.9	3/23/2020	6/8/2020
7.5%	23.6%	148	156	0.6	3/23/2020	6/8/2020
5.0%	14.7%	72	303	0.3	4/1/2020	6/8/2020

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%	-10.9%	37	303	0.4	6/8/2020	6/11/2020

From 02.20.28 through 06.11.20. 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%

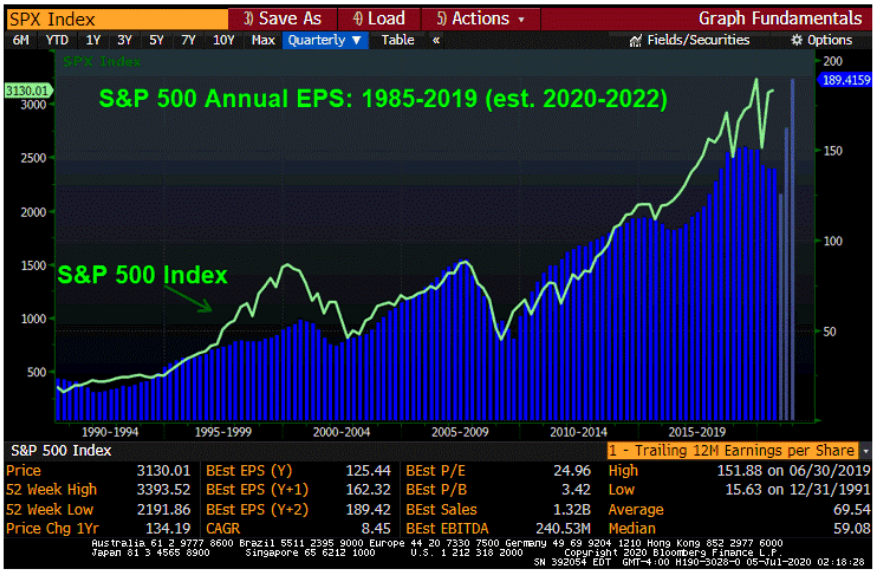
From 06.30.27 through 04.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

…as corporate profits have generally grown over time, despite the occasional hiccup.

THE PRUDENT SPECULATOR

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

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



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.60	$161.28
9/30/2021	$41.93	$152.42
6/30/2021	$37.95	$141.38
3/31/2021	$36.80	$126.35
12/31/2020	$35.74	$109.05
9/30/2020	$30.89	$112.49
6/30/2020	$22.92	$121.41
3/31/2020	$19.50	$138.63
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 6.30.20

No guarantees, of course, that past is prologue and stock prices will continue their long-term uptrend, but we cannot ignore the fact that equity valuations "should" be higher when interest rates are lower…and, to be fair, lower when interest rates are higher.

INTEREST RATES VERY SUPPORTIVE OF STOCKS

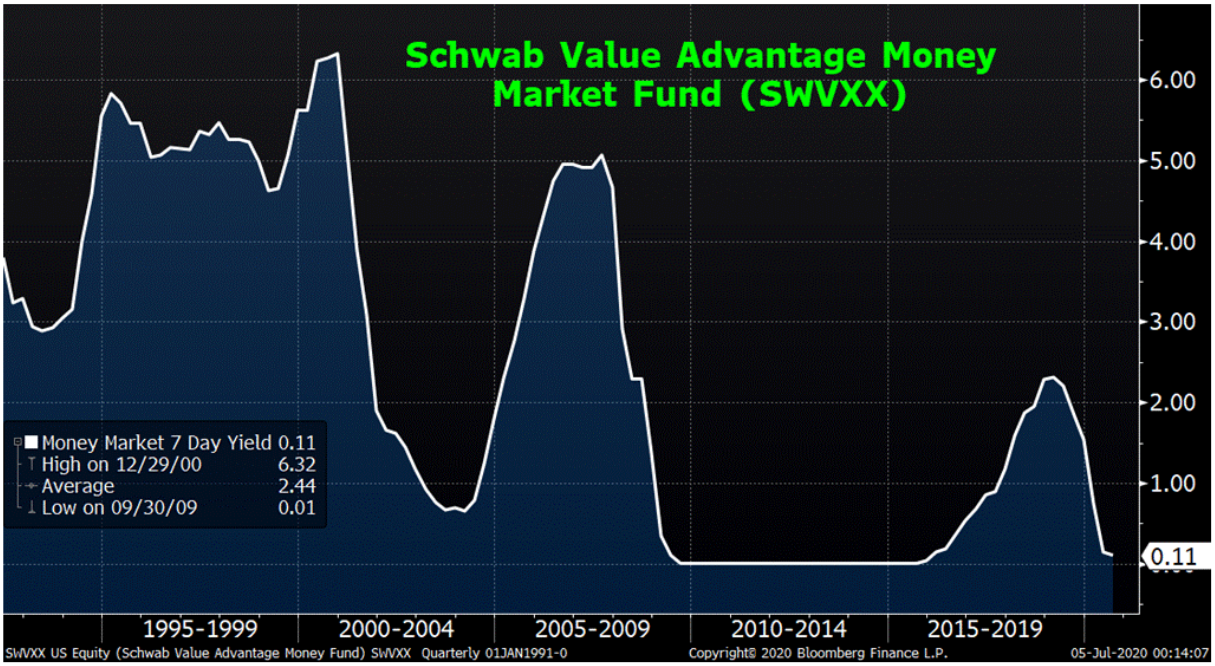
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's rich relative earnings yield (4.46% on a trailing-12-month basis vs. 0.67% for the 10-year Treasury), with the S&P 500 dividend yield of 1.93% also very generous.

But Chair Powell and his colleagues at the Federal Reserve seem committed to doing all that it takes to boost the economy, including maintaining the Federal Funds rate near zero for the foreseeable future, which will keep yields on cash on the sidelines at next to nothing. In fact, these days, in order to avoid a one-basis-point (0.01%) annualized yield on money held in the proverbial mattress, one must invest in so-called "Prime" money-market funds to capture even an 11-basis-point (0.11%) yield, whereas the yield on a "Prime" fund like the Schwab Value Advantage Money Market (SWVXX) had been in the 600-basis-point (6.0%) range back in 2000 and 500-basis-point (5.0%) range in 2007.

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 0.11% today, similar but even larger than the drop from 1.38% on 12.31.08 to 0.34% on 3.31.09.

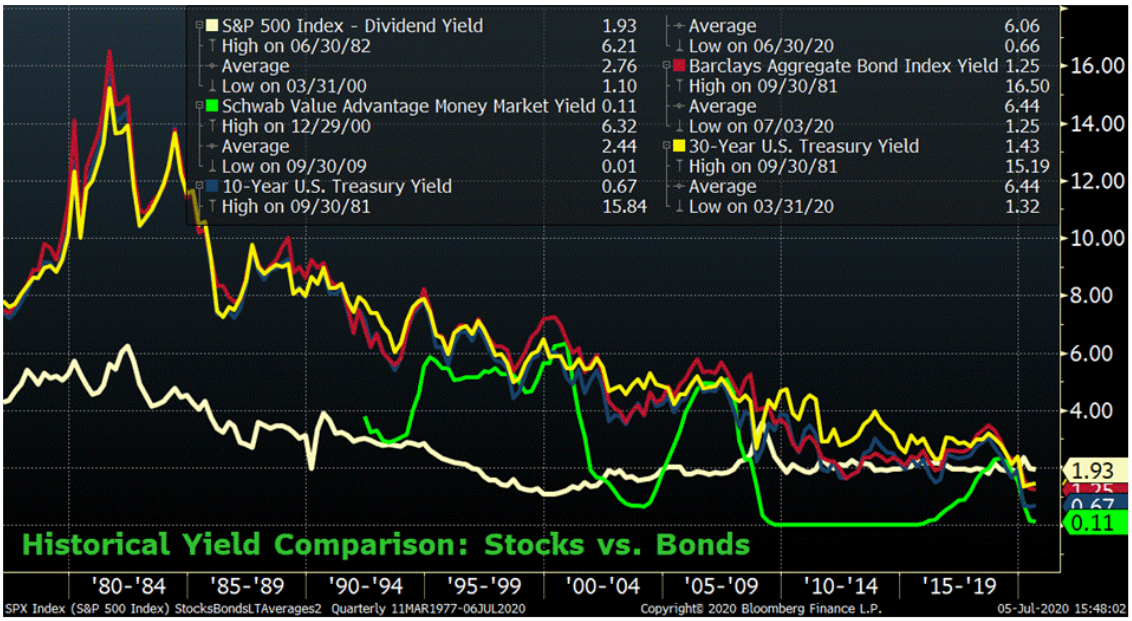


We understand that for some return *of* principal is more important than return *on* principal, but the income available on stocks today compares very favorably to that offered by many fixed-income instruments,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.93%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than the Barclays Aggregate Bond Index**!

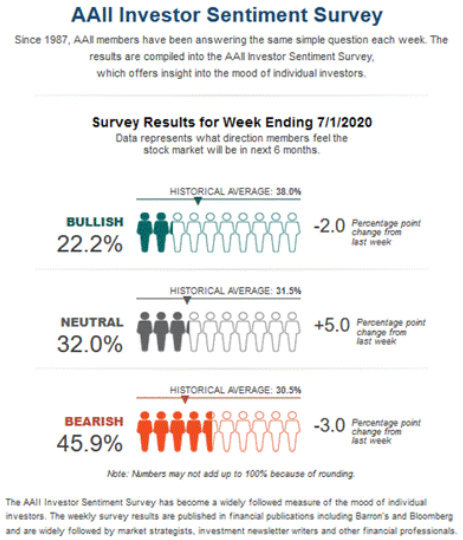


…yet investors on the whole remain infatuated with bond funds and disenchanted with equities,…

SENTIMENT: NO ENTHUSIASM FOR STOCKS

Optimism fell to a nine-month low and is now tied for its 83rd lowest reading in the latest AAII Sentiment Survey. Bullish sentiment remains at an unusually low level and bearish sentiment remains at an unusually high level for the third consecutive week.

The love affair with bonds continues, per the latest data from ICI, and the disdain for equities, especially U.S. stocks, picked up speed as mutual and exchange traded fund investors who bought the week of 6.10.20 got hit with a 7% drop in the Dow on 6.11.20.



Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	6/24/2020	6/17/2020	6/10/2020	6/3/2020	5/27/2020
Total Equity	-18,567	-9,283	13,052	-11,138	-2,362
Domestic	-14,082	-5,946	15,883	-5,903	1,601
World	-4,485	-3,337	-2,831	-5,235	-3,963
Hybrid	-1,382	-1,980	1,998	1,253	249
Total Bond	25,106	18,964	25,564	25,991	17,447
Taxable	22,183	16,021	21,378	22,884	15,508
Municipal	2,923	2,942	4,186	3,106	1,939
Commodities	2,469	313	197	1,527	822
Total	7,626	8,014	40,812	17,633	16,156

Source: Investment Company Institute

…even as history suggests that, as legendary Value investor Warren Buffett states, “The time to be greedy is when others are fearful.”

Illustrating that folks often zig when they should zag, the 2.0-point drop in Bullishness and 3.0-point decline in Bearishness for the week ending 7.2.20 put the AAII Bull-Bear Spread at -23.7, keeping the sentiment indicator in the lowest decile, which history shows offers investors the best average 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	880	0.25%	0.22%	1.21%	1.08%	3.32%	2.94%	6.36%	5.65%
ABOVE	8.1	62.9	837	0.15%	0.13%	0.43%	0.34%	1.81%	1.55%	4.48%	3.99%
	Ten Groupings of 1717 Data Points										
1	-54.0	-15.0	174	0.50%	0.43%	1.99%	1.74%	5.17%	4.61%	8.36%	7.21%
2	-14.9	-7.2	170	0.36%	0.33%	0.95%	0.83%	3.24%	2.90%	6.13%	5.40%
3	-7.2	-1.4	171	0.33%	0.30%	1.58%	1.48%	3.31%	2.91%	6.93%	6.29%
4	-1.4	3.0	176	0.06%	0.02%	0.97%	0.88%	2.62%	2.26%	5.91%	5.40%
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%	4.91%	4.37%
8	16.4	22.0	177	0.16%	0.15%	0.67%	0.60%	1.93%	1.65%	5.68%	5.26%
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 7.2.20. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

Happily, the Oracle of Omaha, for the first time since the COVID-19 pandemic began, is finally practicing what he preaches as this weekend it was announced that Berkshire Hathaway was putting nearly $10 billion to work in a deal to buy natural gas assets from integrated utility concern Dominion Energy. We don't have an opinion on that transaction, but considering that the S&P 500 Pure Value index (of which Energy and Utility stocks are major constituents) is still off more than 30% this year, we think that there are plenty of equity market bargains left to be had, provided one is willing to head away from the crowds congregating in the Growth stock arena.

THE PRUDENT SPECULATOR

MISERABLE YEAR FOR MOST STOCKS

While a handful of mega-cap Growth stocks have helped the S&P 500 and Russell 3000 indexes, most stocks are still deep in the red in 2020.

Total Returns Matrix

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
6.16	2.86	3.09	4.46	11.93	19.88	18.89	30.72	70.20	145.61	Bloomberg Barclays Global-Aggregate Bond
5.17	4.18	6.26	8.70	16.97	23.86	31.22	45.85	91.53	172.71	Bloomberg Barclays US Aggregate Bond
39.85	-11.17	-8.34	-1.13	29.92	64.68	105.01	242.50	267.42	300.81	Dow Jones Industrial Average
37.76	-13.90	-12.59	-6.29	10.56	26.34	57.82	143.39	147.61	180.12	New York Stock Exchange Composite
50.58	-7.33	-2.61	4.18	26.07	40.80	93.44	244.17	256.73	184.56	Russell 2000 Growth
34.90	**-23.29**	**-24.89**	**-18.53**	**-14.08**	**4.82**	**27.66**	**112.34**	**101.92**	**328.85**	**Russell 2000 Value**
43.45	-14.88	-13.54	-6.88	5.45	23.10	59.38	174.37	173.20	262.47	Russell 2000
49.36	1.72	10.87	22.46	68.03	105.36	187.75	389.19	395.64	194.41	Russell 3000 Growth
34.17	**-17.45**	**-16.63**	**-9.81**	**4.42**	**23.70**	**58.92**	**168.17**	**144.05**	**247.53**	**Russell 3000 Value**
42.53	-7.30	-2.56	6.54	34.52	61.93	117.41	268.56	255.28	233.03	Russell 3000
40.68	-6.86	-2.13	7.42	37.10	66.95	123.84	276.89	258.36	218.66	S&P 500
46.55	0.64	9.46	17.91	61.40	99.16	178.92	374.62	375.53	216.45	S&P 500 Growth
32.86	**-16.02**	**-15.23**	**-4.95**	**12.03**	**33.40**	**70.58**	**184.78**	**155.38**	**202.11**	**S&P 500 Value**
52.41	-3.29	3.78	10.25	43.43	68.29	141.05	353.67	372.37	276.38	S&P 500 Pure Growth
40.60	**-28.58**	**-30.54**	**-24.96**	**-13.80**	**-0.12**	**36.76**	**158.84**	**149.04**	**442.56**	**S&P 500 Pure Value**
10.30	-21.99	-21.05	-16.64	5.59	30.16	58.93	131.53	221.17	408.04	Berkshire Hathaway B

As of 7.2.20. Source Kovitz using data from Bloomberg

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/.

Following the mandatory waiting period over the prior weekend, last week began with the release of results from the recent stress test and COVID scenario analyses of U.S. banks performed by the Federal Reserve. As we mentioned in last week's commentary, these assessments incorporated the use of a new Stress Capital Buffer (SCB) framework into capital requirements, which also consist of a base minimum requirement and a surcharge for banks deemed Systemically Important. This had the effect of increasing capital requirements for several of the firms in our portfolios, although nearly all of those placed under the microscope exceeded their hurdle. Indeed, several received the lowest possible SCB requirement of 2.5%. Happily, of those that have publicly announced, none of the banks we own have projected to cut their dividends for at least the next quarter. Note that published SCBs for each bank are preliminary, with an official figure to be released by the Fed before it takes effect in Q4 this year.

Of the 33 analyzed by the Fed, **Goldman Sach**s (GS – $197.40) was the lone bank in our portfolios that missed buffer requirement. Despite the current capital shortfall, GS CEO David Solomon expressed confidence in the firm's position, "Our durable earnings profile, continued performance, and highly liquid balance sheet allow us to serve our clients, maintain our dividend, and deliver for all our stakeholders. We have a track record of rebuilding capital when necessary, and have brought our standardized CET1 ratio above 13% as this quarter comes to a close. We fully intend to continue this dynamic capital management while helping our clients continue to navigate challenging markets."

On the other end of things, **KeyCorp** (KEY – $11.71) is a bank that is typically viewed as slightly higher risk given certain of its commercial and industrial loan exposures, yet the bank received the lowest preliminary SCB of 2.5%. CEO Chris Gorman stated, "We remain committed to maintaining our moderate risk profile and being disciplined in the way we manage our capital. Our strong balance sheet, liquidity, and capital positions our company to weather adverse economic scenarios, while continuing to support our clients, invest in our business, and provide returns for our shareholders. Our capital plans would include maintaining our common stock dividend for the third quarter of 2020, at the same level as the second quarter of 2020, subject to approval from our Board of Directors."

To reiterate our position from last week, we continue to expect volatility in the near-term as several of our holdings, such as **Capital One Financial** (COF – $61.15), likely continue to build reserves. That said, the KBW banking index remains 36% below where it started the year and, in our view, has priced in a lot of bad news for long-term buyers. Despite compressed net interest margin, commercial U.S. banks are flush with a significant increase in deposits over the last six months, while several of our holdings have likely benefited from elevated mortgage/refinance activity and capital market/trading operations in the year thus far.

Shares of **Amgen** (AMGN – $258.24) rose over 11% last Wednesday as an appeals court upheld both of the firm's patents for rheumatoid arthritis drug Enbrel. Eager to sell its own form of the treatment called Erelzi, Novartis subsidiary Sandoz claims that Amgen's patents are not valid and is considering an appeal to the U.S. Supreme Court. The hotly contested patents extend Enbrel's exclusivity into the late 2020s, and will have maintained 31 years of exclusivity if they remain through their expected life.

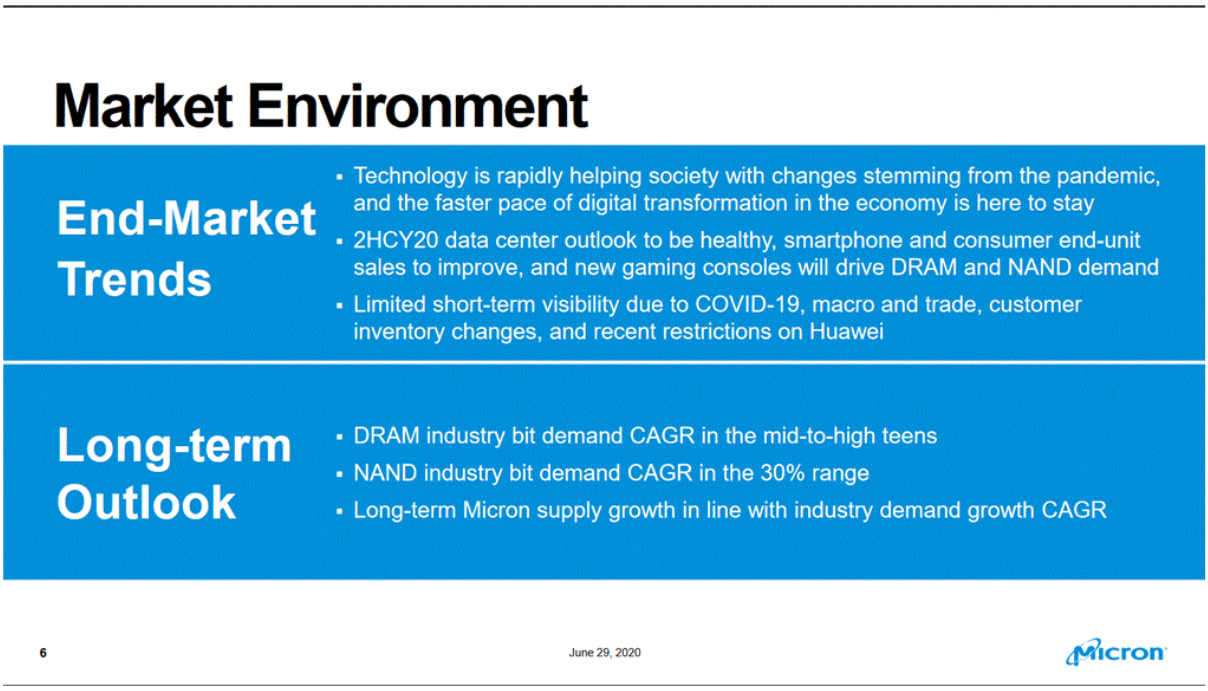
Producing more than 20% of revenue for several years, the Enbrel win supports our favorable view of AMGN shares. While the COVID-19 pandemic adds stiffer near-term headwinds, we also like that Amgen has shifted the conversation from legacy drugs to its growth products and shown that its opportunistic purchases and partnerships have added value. The firm's strong free-cash-flow generation, solid finanacial footing and 2.5% dividend yield are also a plus. Our Target Price for AMGN currently resides at an increased $284.

Memory maker **Micron Technology** (MU – $49.83) posted earnings per share of $0.82, versus the $0.77 estimate, in fiscal Q3 2020. MU had total revenue of $5.44 billion, versus the $5.31 billion estimate. Shares extended their bounce off the March 16 low of $31 and are now trading just 7% lower this year.

CEO Sanjay Mehrotra said on the earnings call, “Due to the excellent work of Micron’s operations team, most of our fab and assembly sites operated at full production throughout the quarter, with our Singapore and Taiwan assembly and test facilities achieving record production. COVID-19’s impact to our production early in our third quarter was limited to our back-end assembly and test sites in Muar and Penang, Malaysia, and we quickly offset this impact with production adjustments at our other facilities. All our production facilities are operating normally at this time. We continue to prioritize the health and safety of all team members and contractors and have strong COVID-19 safety measures in place at all our sites worldwide. We are taking a conservative, phased and site-specific approach to returning our team members on-site, prioritizing our manufacturing workforce and engineering teams.”

Mr. Mehrotra continued, “The pandemic has impacted the cyclical recovery in DRAM and NAND, causing stronger demand in some segments and weaker demand in others. Market segments driven primarily by consumer demand have seen a negative impact. Calendar 2020 analyst estimates for end-unit sales of autos, smartphones and PCs are meaningfully lower than pre-COVID-19 levels, even though estimates for enterprise laptops and Chromebooks have increased. The reduced level of global economic activity has also curtailed near-term demand. The pandemic is driving rapid change in consumer and corporate practices around the world. Consumers are significantly increasing online activity, including e-commerce, gaming and video streaming, all of which drive additional data center capacity requirements. Trends like working-from-home and online learning are likely to drive long-term changes in how we think about workforce flexibility and education… Additional government fiscal stimulus programs are also supportive of economic activity and will accelerate trends like electric vehicle production…Clearly, certain trends that would have taken 2 to 4 years to develop have been accelerated into months. It is easy to see how these changes will drive higher consumption of memory and storage in the long term. The faster pace of digital transformation in the economy is here to stay.”

CFO Dave Zinsner cautioned that COVID-19 is not in the rear-view mirror, “In addition, the risk of a second wave of COVID-19 infections is continuing to drive greater uncertainty for the economic recovery and our business. Lastly, inventory strategies of our customers are difficult to predict. We continue to closely monitor market conditions and respond to changes in the market environment in a timely and disciplined manner.”



Management expects data center demand to remain healthy in the back half of 2020, along with improving sales in smartphone and consumer end-unit sales. MU also expects gaming console launches to boost DRAM and NAND demand. Micron finished the quarter with approximately $2.6 billion in net cash and has total liquidity of $11.8 billion, up from $10.6 billion at the end of last quarter. While MU has never paid a dividend, the company continues to return cash to shareholders via its active share repurchase program, which totaled 929,000 shares in the quarter at an average price of $43.54. The company expects revenue between $5.75 billion and $6.25 billion, with an EPS range between $0.95 and $1.15. The company's gross margin should come in between 34% and 37%. While the short term offers plenty of uncertainty for virtually all companies, we believe that focus on the longer term remains critical, especially for Micron. The company has a strong balance sheet and reasonable valuation metrics. Our Target Price for MU has been boosted to $68.

Shares of **FedEx** (FDX – $155.48) gained more than 11% after the company reported fiscal Q4 2020 results that crushed analyst estimates on the top and bottom lines. The package and freight delivery giant earned $2.53 per share (vs. $1.53 est.) and had revenue of $17.4 billion (vs. $16.3 billion est.). While the company didn't reinstate guidance (which it pulled on March 17), CMO Brie Carere said that the company is seeing sights of a "tentative economic recovery" and FDX expects e-commerce retail as a percentage of overall retail to remain elevated.

CFO Alan Graf commented, “Virtually all our revenue and expense line items during the fourth quarter were affected by the COVID-19 pandemic. While commercial volumes were down significantly due to business closures across the globe, we experienced a surge in residential deliveries at FedEx Ground and in transpacific and charter flights at FedEx Express, which required incremental cost to serve. We also incurred an approximate $125 million increase in operating costs related to personal protective equipment and safety supplies as well as additional security and cleaning services to protect our team members and ensure we are safely providing essential services to our customers.”

“We said on this call last year that FY ’20 would be a challenging — a year of challenge and change, better put, and that has certainly been the case. We told you about a number of strategic initiatives we have had underway to navigate that challenge and change. Then, beginning in January, we began to deal with COVID-19 in China, then in Europe and then, of course, in the United States. I reported on all the work we had done in those areas of the world to respond to the pandemic during our quarter 3 earnings call on 17 March. We’ve made every effort to keep our team members and the public safe as we’ve dealt with this terrible disease, and we’re very proud of our team members in the role they played in keeping the global, industrial and at-home supply chains open. My most sincere appreciation goes to our team members around the world for their herculean efforts during this time. We are so proud of them.” said Founder and CEO Frederick W. Smith.

FedEx has $4.9 billion of cash and $3.5 billion of available credit facilities, giving the company plenty of flexibility as the pandemic evolves. The company is still spending money on the TNT integration, which is not great financially. FDX also deferred some aircraft deliveries as far out as 2025, as it works to reduce capital expenditures and conserve cash. While the Q4 report was certainly a bright spot and surprised the market, evidenced by the big gain, we think that FDX isn’t out of the woods yet, as consumer spending needs to keep improving and air freight’s sudden volume surge will return to more normal levels as passenger airlines increase capacity. We continue to like the strong balance sheet, modest dividend yield and position as an industry leader. FDX trades near 15 times forward earnings and the dividend payment, which was declared on June 15, puts the yield around 1.7%. Our Target Price for FDX has been increased to $208.