Market Commentary Monday, July 13, 2020

July 13, 2020

EXECUTIVE SUMMARY

Newsletter Purchases – 10 Stocks Bought 7.7.20
Week in Review – Confounding Roller-Coaster Ride Ends on a High
Health News – COVID-19 Case Counts Rise; Overall U.S. Death Rate is 9.5% Higher in 2020 vs. 2019
Historical Perspective – Stocks Have Overcome Plenty of Adversity Through the Years
Econ News – Awful (But Improving) Jobs Numbers; ISM NMI Surprises to the Upside
Don't Fight the Fed – Powell & Co. Very Supportive
Interest Rates – Stocks Very Attractive vs. Fixed Income
Sentiment – Very Little Enthusiasm for Stocks; Major Infatuation with Bonds
Wizard of Wharton – Jeremy Siegel Reminds that 90% of the Value of Stocks is from Earnings More than 12 Months in the Future
Stock News – Updates on GBX, ALL, WMT & WBA

Market Review

A little housekeeping before this week's missive. As discussed in the July edition of *The Prudent Speculator*, we bought the following on Tuesday morning, July 7.

TPS Portfolio
137 **Bank of America** (BAC – $24.02) at $23.0850
406 **Hasbro** (HAS – $74.18) at $73.7495
745 **Kohl's** (KSS – $21.09) at $20.4069
254 **MetLife** (MET – $36.94) at $36.425

Buckingham Portfolio
43 **Alexandria Real Estate** (ARE – $160.81) at $162.00
42 **Total SA** (TOT – $37.77) at $39.128

For our hypothetical portfolios, we added the following, also on Tuesday, July 7.

Millennium Portfolio
31 **Broadcom** (AVGO – $319.44) at $317.34
67 **General Dynamics** (GD – $141.97) at $148.00

PruFolio
334 **Bristol-Myers** (BMY – $57.43) at $59.76
327 **Siemens AG** (SIEGY – $61.265) at $61.06

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We pity the poor copywriters who pen the daily market reviews in the financial papers, with last week providing another illustration that nobody can predict or even effectively explain short-term stock-price movements.

After all, the Dow Jones Industrial Average soared 460 points on Monday because as one investment manager said, "Very few people think that there will be as draconian lockdowns again." Yet on Tuesday, the Dow skidded 397 points, with the *Associated Press* writing, "The recent surge in confirmed new cases has clouded hopes for a relatively quick economic turnaround."

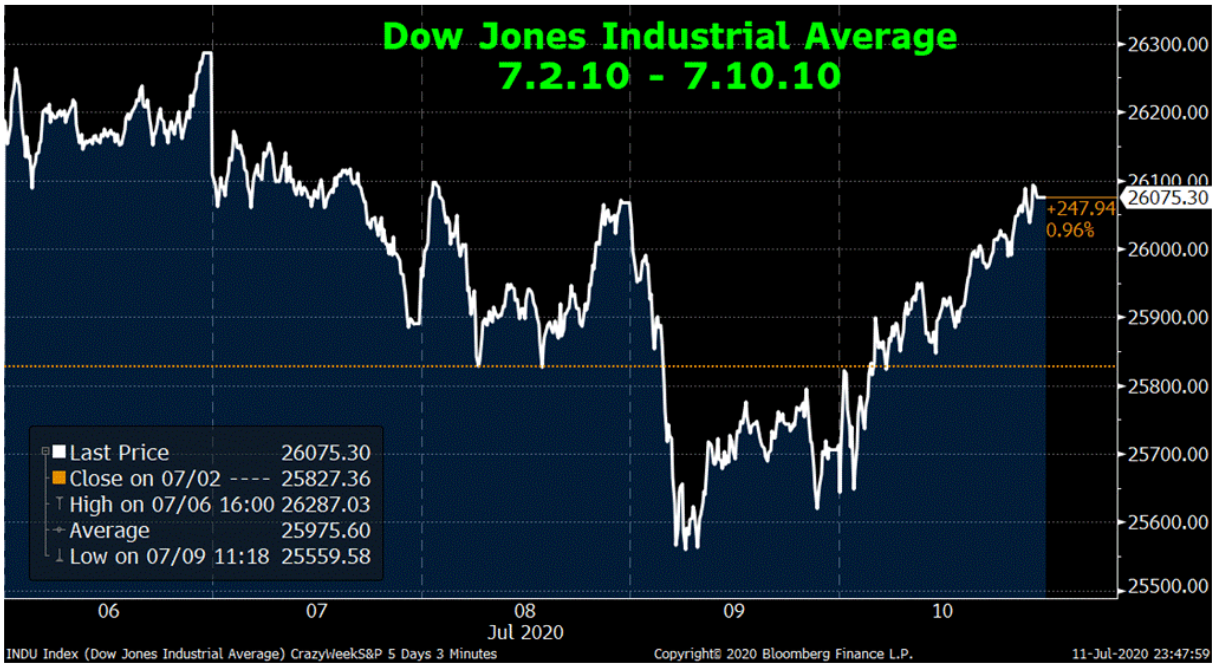
Wednesday saw a morning rally, an afternoon selloff and a closing rebound that allowed the Dow to advance 177 points on the day. One strategist proclaimed, "I would characterize the stock market as relatively immune to the health crisis. It is difficult for stock prices to go down when stimulus measures by the Federal Reserve and the European Central Banks have pinned down bond yields."

Alas, it was not difficult for stocks to head south on Thursday, with the Dow tumbling 361 points. This prompted one pundit to opine, "I think the resurgence in the COVID-19 positive cases certainly makes the markets worried. They are concerned about the potential second round of lockdown."

Friday brought more disconcerting coronavirus news, with case counts hitting new highs and the mortality rate rising rapidly in more than a few U.S. states, but stocks turned in a fantastic day, with the Dow Jones Industrial Average rebounding 369 points. True, there was somewhat encouraging news related to **Gilead Science's** (GILD – $76.32) remdesivir COVID-19 treatment, but a wealth management firm chief investment officer, quoted in *The Wall Street Journal*, explained, "Markets have been resilient in part because investors expect further support from the U.S. Federal Reserve if the pandemic begins to slow the economy again…Markets are able to take the coronavirus news in stride because of this backdrop."

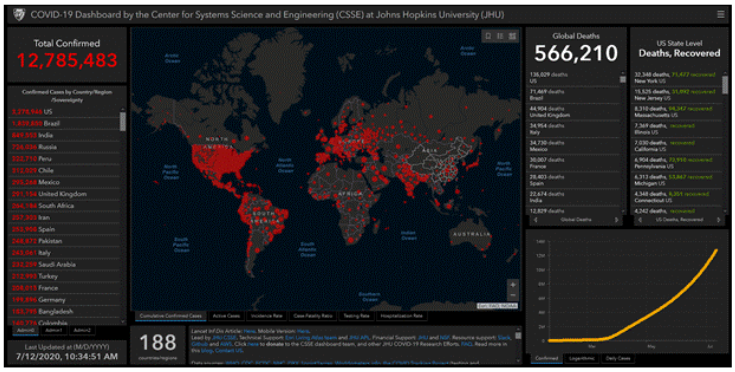
Dow Jones Industrial Average Roller Coaster Ride

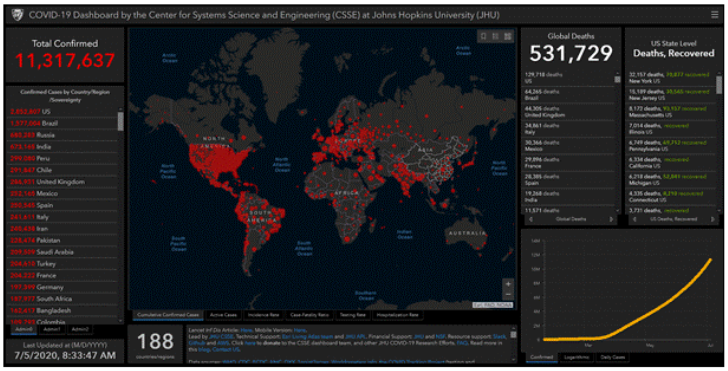
With the Dow moving higher then lower then higher then lower then higher in a volatile week, traders were confused...as usual... about the near-term direction of stocks.



When all was said and done, it would seem that the proverbial glass was more half-full than it was half-empty as the Dow ended the five days nearly 250 points higher, with the weekly zig-zagging illustrating yet again why we always say that the only problem with market timing is getting the timing right!

That said, we respect that equity market volatility will remain elevated as COVID-19 dominates the headlines, with Sunday afternoon's stories focused on record coronavirus cases in Florida, Arizona, California and Texas, even as the associated spike in fatalities has yet to hit.





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

With access to testing markedly higher, there was a jump of 1.5 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 135,000 fatalities. With deaths lagging cases, 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 6.5%, in line with 6.4% the week prior and down from 7.3% the week before that and 8.0% three weeks ago.

We also note updated information from the U.S. Centers for Disease Control and Prevention (CDC) that was reported on *CNN.com* on Saturday, "Under the CDC's 'current best estimate,' 40% of people with COVID-19 are asymptomatic. This number is up from the 35% the agency estimated on May 20. The percent of asymptomatic cases remains uncertain, the CDC emphasized…The CDC is now including an infection fatality ratio, which takes into account both symptomatic and asymptomatic cases (in the estimates published in May, the agency only included fatality ratio for symptomatic cases). Under the "best estimate" scenario, the infection fatality ratio is 0.65%, meaning that 0.65% of people infected with COVID-19 are thought to die."

To be sure, we are not suggesting that we should cheer a fatality ratio of 0.65%, given that such a number would represent 2.1 million of the current U.S. population of 331 million, but that figure is significantly lower than the 3.4% or higher mortality rate that had been suggested by health officials a few months back. And, while we concede that the current wave of infections could lead to an acceleration in the death count, if trends seen over the first 24 weeks of 2020 hold, we might expect 3.1 million to 3.2 million deaths from all causes for the year in the U.S., up from 2.8 million in 2018.

DEATH IS AN UNFORTUNATE FACT OF LIFE

National Center for Health Statistics First 24-Weeks-of-the Year Overall U.S. Mortality Statistics

Year	Total Deaths	Year-over-Year Change	Versus 7-Year Average
2014	1,229,960		92%
2015	1,293,899	5.2%	97%
2016	1,282,251	-0.9%	96%
2017	1,334,407	4.1%	100%
2018	1,361,620	2.0%	102%
2019	1,347,138	-1.1%	101%
2020	1,474,773	9.5%	111%

Source: National Center for Health Statistics (NCHS)

The 208,255 American fatalities from COVID-19 through 11.1.20 that is now expected by the Institute for Health Metrics and Evaluation is hard to fathom, but that count would be #3 on the annual rankings for cause of death in the U.S. and some may be surprised that the overall mortality rate so far in 2020 from all causes is *just* 9.5% above that of 2019.

Data table for Figure 2. Number of deaths, percentage of total deaths, and age-adjusted death rates for all causes and the 10 leading causes of death in 2018: United States, 2017 and 2018

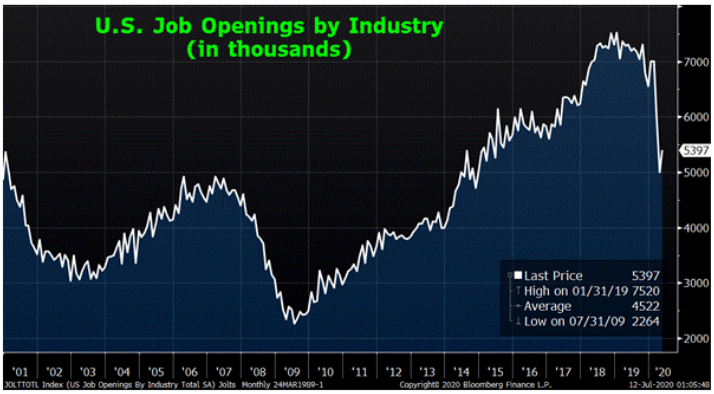
Rank[1]	Cause of death (based on *International Classification of Diseases, 10th Revision* [ICD–10])		2017 Number	2017 Percent	2017 Rate[2]	2018 Number	2018 Percent	2018 Rate[2]
...	All causes		2,813,503	100.0	731.9	2,839,205	100.0	723.6
1	Diseases of heart	(I00–I09,I11,I13,I20–I51)	647,457	23.0	165.0	655,381	23.1	163.6
2	Malignant neoplasms	(C00–C97)	599,108	21.3	152.5	599,274	21.1	149.1
3	Accidents (unintentional injuries)	(V01–X59,Y85–Y86)	169,936	6.0	49.4	167,127	5.9	48.0
4	Chronic lower respiratory diseases	(J40–J47)	160,201	5.7	40.9	159,486	5.6	39.7
5	Cerebrovascular diseases	(I60–I69)	146,383	5.2	37.6	147,810	5.2	37.1
6	Alzheimer disease	(G30)	121,404	4.3	31.0	122,019	4.3	30.5
7	Diabetes mellitus	(E10–E14)	83,564	3.0	21.5	84,946	3.0	21.4
8	Influenza and pneumonia	(J09–J18)	55,672	2.0	14.3	59,120	2.1	14.9
9	Nephritis, nephrotic syndrome and nephrosis	(N00–N07,N17–N19,N25–N27)	50,633	1.8	13.0	51,386	1.8	12.9
10	Intentional self-harm (suicide)	(*U03,X60–X84,Y87.0)	47,173	1.7	14.0	48,344	1.7	14.2
...	All other causes	(residual)	731,972	26.0	...	744,312	26.2	...

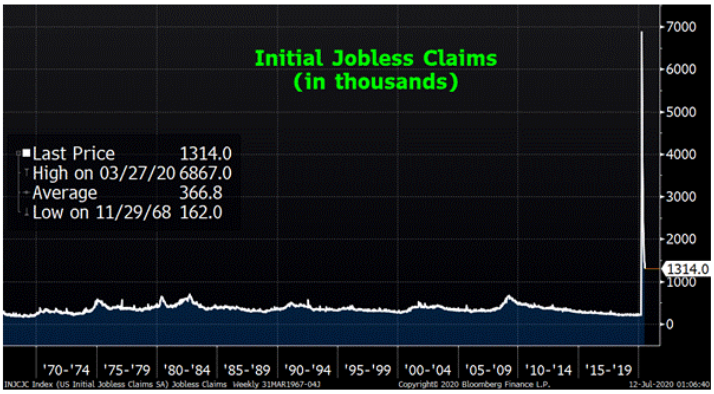
... Category not applicable.
* Code not included in ICD–10.
[1]Based on number of deaths.
[2]Deaths per 100,000 U.S. standard population.
SOURCE: NCHS, National Vital Statistics System, Mortality.

Data Brief 355. Mortality in the United States, 2018

This is not meant to diminish the severity of the global pandemic, especially as we know that there can be plenty of health problems for those who contract the virus and survive, while the economic toll has been devastating.

AWFUL (BUT IMPROVING) EMPLOYMENT NUMBERS





While a record 6.5 million people were rehired or found new jobs during May and there were 5.4 million job openings, up from 5.0 million in April, the labor picture remains terrible, even as the numbers are getting better. Looking at more current data, first-time filings for unemployment benefits continue to be massive, with 1.31 million claims in the latest week, bringing the total for the last 16 weeks to just shy of 50 million.

True, COVID-19 is a different animal, so to speak, but the equity markets have managed to persevere through plenty of scary events over the long term,…

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%	36594%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	21134%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	18984%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	7375%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	8071%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5854%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4476%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4122%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3356%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4451%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2927%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3143%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2566%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1867%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1201%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1317%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	907%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	746%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	674%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	618%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	597%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	530%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	263%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	232%
Clinton Impeachment Proceeding	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	159%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	137%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	230%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	248%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	192%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	166%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	371%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**4307%**

As of 7.10.20. 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.

…while the last decade or so has not exactly been a bed of roses.

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	182%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	144%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	166%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	122%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	123%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	92%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	73%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	59%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	57%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	54%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		51%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		58%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		54%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		69%
Brexit	6/23/2016	2,113.32	2%	7%	15%	40%		51%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		49%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**66%**	**88%**

Source: Kovitz Investment Group using data from Bloomberg. As of 7.10.20

At the risk of appearing callous, our focus today, as always, must remain on the investment prospects of the U.S. equity markets in general and our broadly diversified portfolios of what we believe to be undervalued stocks in particular. On this score, we never forget that despite sometimes stomach-churning ups and downs, stocks his`torically have proved very rewarding,…

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	304	0.3	6/11/2020	7/10/2020

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 07.10.20. 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

…for those who patiently remember that time in the market trumps market timing.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

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 0.64% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0.64%	Count <=0.64%	Percent >0.64%
1 Month	697	417	62.6%
3 Months	743	369	66.8%
6 Months	778	331	70.2%
1 Year	803	300	72.8%
2 Year	908	183	83.2%
3 Year	941	138	87.2%
5 Year	941	114	89.2%
7 Year	992	39	96.2%
10 Year	960	35	96.5%
15 Year	931	4	99.6%
20 Year	875	0	100.0%

DIVIDEND PAYERS

	Count >0.64%	Count <=0.64%	Percent >0.64%
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	911	168	84.4%
5 Year	956	99	90.6%
7 Year	982	49	95.2%
10 Year	956	39	96.1%
15 Year	933	2	99.8%
20 Year	875	0	100.0%

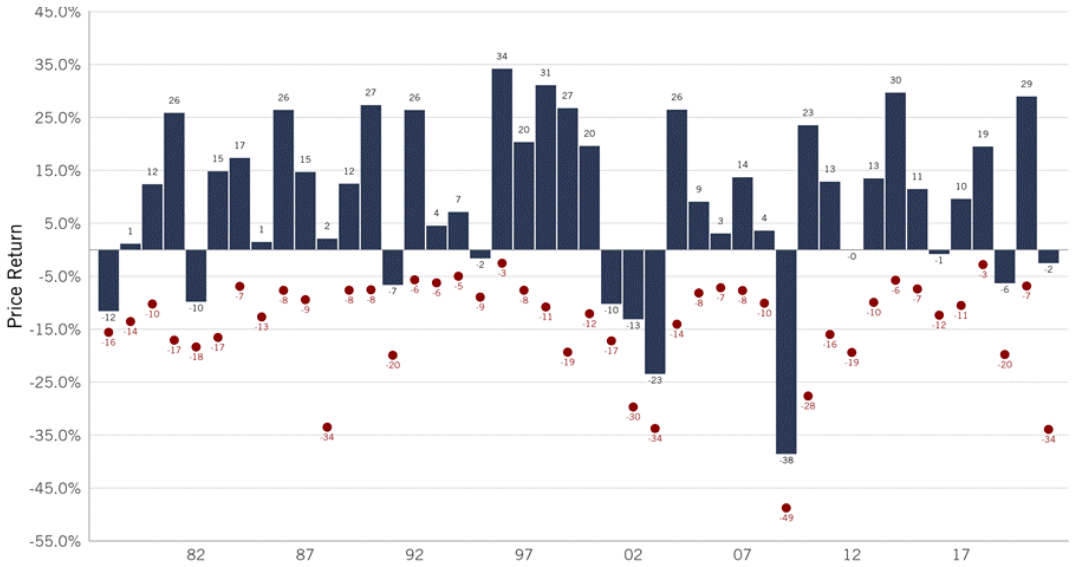
From 07.31.27 through 04.30.20. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors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

We do not mean to suggest that near-term market action will be to the upside and we know that tensions with China and the upcoming November election are two additional uncertainties with which the market must contend, so we must be braced for the inevitable trips south,…

THE PRUDENT SPECULATOR

A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 44 years, including a 34% one (on a closing basis) this year.



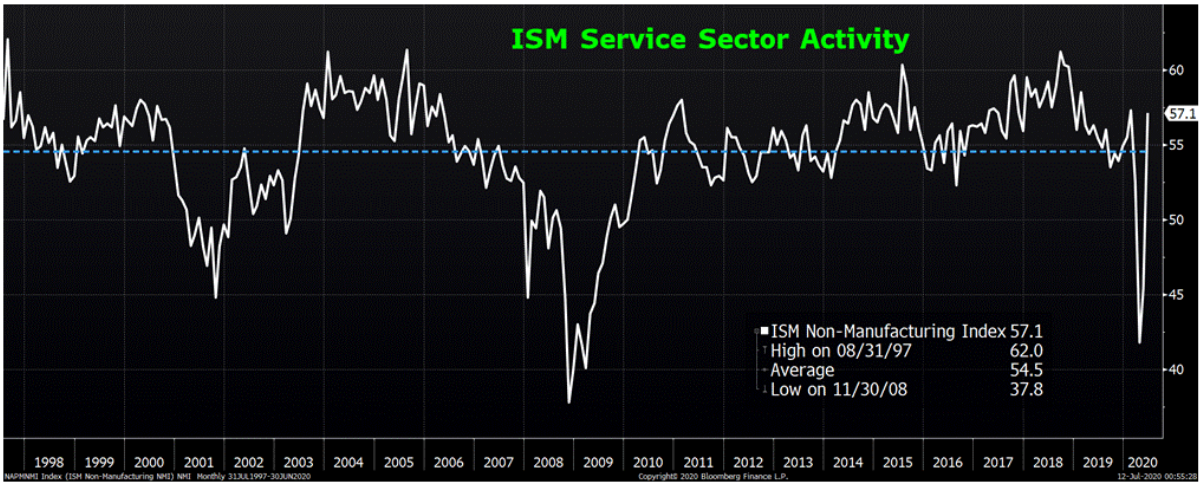
From 12.31.76 through 07.09.20. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…but we like that economic statistics, notwithstanding the expiration of certain government stimulus programs this month, have been coming in better than most had expected just a couple of months ago,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING SOARS: 2.9% ANNUALIZED GDP GROWTH

The latest read on the health of the factory sector jumped to a much-better-than-expected 57.1% in June, up from 45.4% in May and marking the single biggest increase since the survey was created in 1997, 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."



…while the aforementioned Federal Reserve continues to do all that it can to provide support to the financial system,…

FEDERAL RESERVE CHAIR JEROME H. POWELL: 6.10.20

The Fed's response is guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. We are committed to using our full range of tools to support the economy in this challenging time. In March, we quickly lowered our policy interest rate to near zero, where we expect to keep it until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals.

We have also been taking broad and forceful actions to support the flow of credit in the economy. Without access to credit, families could be forced to cut back on necessities or even lose their homes. Businesses could be forced to downsize or close, resulting in further losses of jobs and incomes and worsening the downturn. Preserving the flow of credit is thus essential for mitigating the damage to the economy and setting the stage for the recovery.

Since March, we have been purchasing sizable quantities of Treasury and agency mortgage-backed securities in order to support the smooth functioning of these markets, which are vital to the flow of credit in the economy. Our ongoing purchases have helped to restore orderly market conditions, and have fostered more accommodative financial conditions. As market functioning has improved since the strains experienced in March, we have gradually reduced the pace of these purchases. To sustain smooth market functioning and thereby foster the effective transmission of monetary policy to broader financial conditions, we will increase our holdings of Treasury and agency mortgage-backed securities over coming months at least at the current pace. We will closely monitor developments and are prepared to adjust our plans as appropriate to support our goals.

The Federal Reserve is also undertaking programs to provide stability to the financial system and to more directly support the flow of credit in the economy—for households, for businesses of all sizes, and for state and local governments. These programs benefit the economy by providing financing where it is not otherwise available. In addition, by serving as a backstop to key credit markets, the programs can increase the willingness of private lenders to extend credit. Many of these programs rely on emergency lending powers that are available only in very unusual circumstances, such as those we find ourselves in today. We are deploying these lending powers to an unprecedented extent, enabled in large part by financial backing and support from Congress and from the Treasury. We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery. When the time comes, after the crisis has passed, we will put these emergency tools back in the toolbox.

…with Jerome H. Powell & Co. likely to keep interest rates near zero for as far as the eye can see, even with a sizable jump in U.S. GDP projected next year.

The Fed's latest projections call for a severe recession (6.5% plunge in real GDP) this year, but a significant recovery in 2021 and 2022, while the Fed Funds rate will likely remain near zero all three years.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2020

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2020	2021	2022	Longer run	2020	2021	2022	Longer run	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8	-7.6–-5.5	4.5–6.0	3.0–4.5	1.7–2.0	-10.0–-4.2	-1.0–7.0	2.0–6.0	1.6–2.2
December projection	2.0	1.9	1.8	1.9	2.0–2.2	1.8–2.0	1.8–2.0	1.8–2.0	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
Unemployment rate	9.3	6.5	5.5	4.1	9.0–10.0	5.9–7.5	4.8–6.1	4.0–4.3	7.0–14.0	4.5–12.0	4.0–8.0	3.5–4.7
December projection	3.5	3.6	3.7	4.1	3.5–3.7	3.5–3.9	3.5–4.0	3.9–4.3	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
PCE inflation	0.8	1.6	1.7	2.0	0.6–1.0	1.4–1.7	1.6–1.8	2.0	0.5–1.2	1.1–2.0	1.4–2.2	2.0
December projection	1.9	2.0	2.0	2.0	1.8–1.9	2.0–2.1	2.0–2.2	2.0	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.0	1.5	1.7		0.9–1.1	1.4–1.7	1.6–1.8		0.7–1.3	1.2–2.0	1.2–2.2	
December projection	1.9	2.0	2.0		1.9–2.0	2.0–2.1	2.0–2.2		1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1	0.1	2.3–2.5	0.1	0.1	0.1–1.1	2.0–3.0
December projection	1.6	1.9	2.1	2.5	1.6–1.9	1.6–2.1	1.9–2.6	2.4–2.8	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3

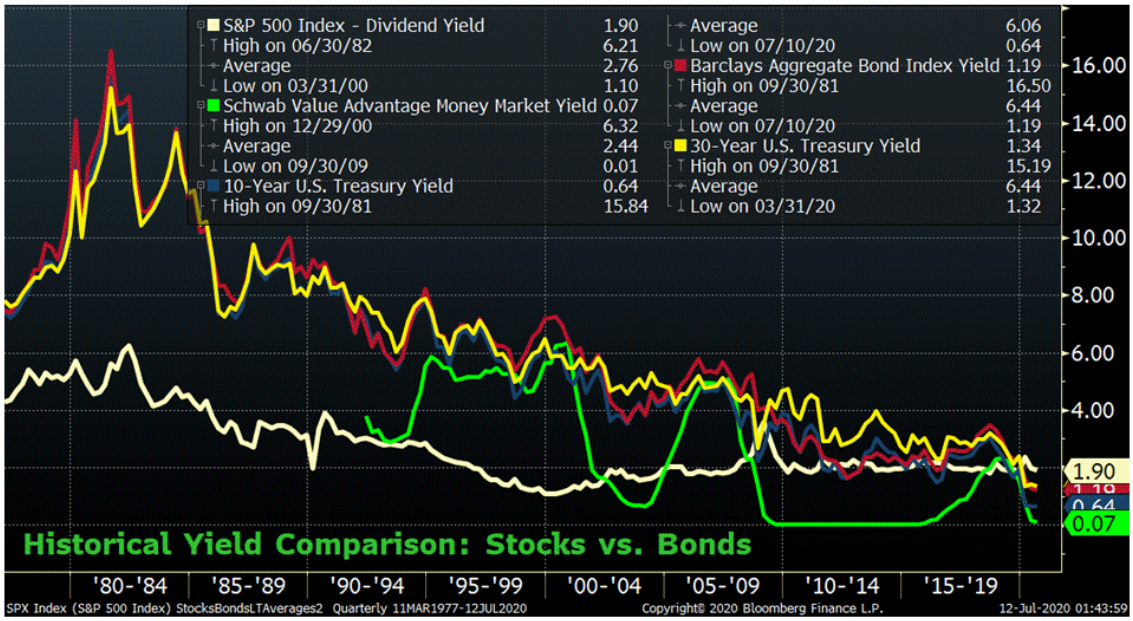
Source: Federal Reserve, June 10, 2020

Those microscopic interest rates also mean that yields on investments in competition with stocks are paltry, with money held in cash or the typical brokerage house money market fund now offering a 0.01% yield, an annual rate of return that if maintained for 6,932 years would see an investor's principal double in value!

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 (1.90%) 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 and 27 times a generous Money Market Fund**!

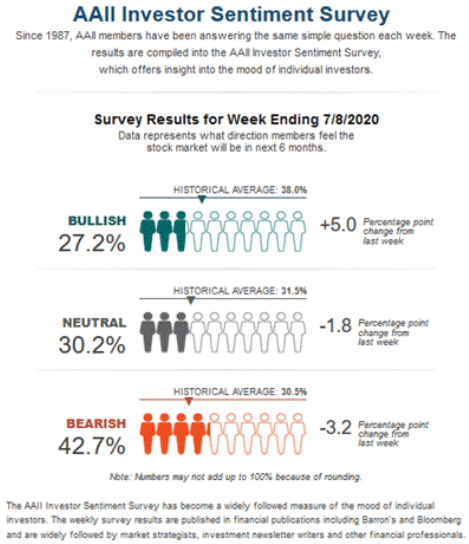


Yes, we realize that equities are risky, assuming one equates volatility with risk, but we find it fascinating that money continues to be shoveled into low-yielding fixed income investments (bonds are not risk-free, especially these days), while it is reassuring that folks seem to have little affection for stocks today,…

SENTIMENT: NO ENTHUSIASM FOR STOCKS

Optimism among individual investors continues to be unusually low despite rising to a four-week high in the latest AAII Sentiment Survey. Bullish sentiment is 10.8 percentage points below normal and Bearish sentiment is 12.2 points above average.

We remain perplexed that many supposed market experts continue to argue that investors are piling into stocks, given that the latest data on mutual and exchange traded fund flows from ICI shows an exodus from U.S. stocks and a continued infatuation with bonds.



Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/1/2020	6/24/2020	6/17/2020	6/10/2020	6/3/2020
Total Equity	-22,884	-17,244	-9,283	13,052	-11,138
Domestic	-14,323	-12,762	-5,946	15,883	-5,903
World	-8,561	-4,482	-3,337	-2,831	-5,235
Hybrid	-1,841	-1,382	-1,980	1,998	1,253
Total Bond	18,777	25,059	18,964	25,564	25,991
Taxable	16,462	22,183	16,021	21,378	22,884
Municipal	2,315	2,876	2,942	4,186	3,106
Commodities	1,036	2,469	313	197	1,527
Total	-4,912	8,901	8,014	40,812	17,633

Source: Investment Company Institute

…especially when the historical evidence suggests a preponderance of Bearish sentiment is an equity market "Buy" signal.

With the numbers illustrating that folks often zig when they should zag, far more folks are Bearish today than normal and far less are Bullish than usual, putting the AAII Bull-Bear Spread for the week ending 7.9.20 at -15.5, with the sentiment indicator still in the lowest decile, which history interestingly 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	881	0.25%	0.22%	1.21%	1.08%	3.34%	2.95%	6.35%	5.64%
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 1718 Data Points										
1	-54.0	-15.0	175	0.50%	0.43%	1.98%	1.73%	5.14%	4.58%	8.31%	7.17%
2	-14.9	-7.2	169	0.35%	0.32%	0.97%	0.84%	3.32%	2.97%	6.08%	5.35%
3	-7.2	-1.4	172	0.34%	0.31%	1.57%	1.47%	3.32%	2.93%	6.97%	6.34%
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%	4.60%	4.08%
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	16.3	170	0.17%	0.15%	0.54%	0.44%	2.26%	2.00%	4.98%	4.44%
8	16.4	22.0	178	0.16%	0.15%	0.68%	0.61%	1.96%	1.69%	5.62%	5.19%
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%

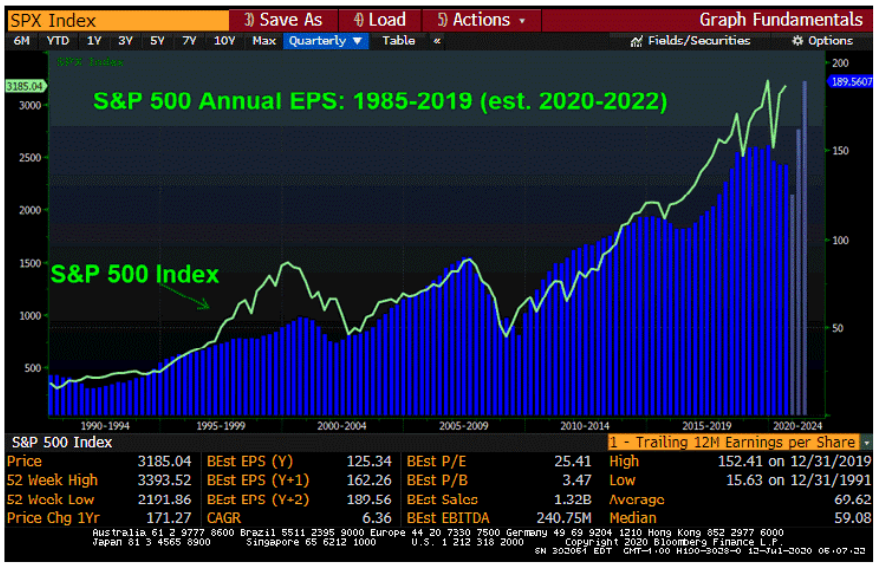
From 07.31.87 through 7.9.20. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

We know that many investor fixate on short-term events and COVID-19 uncertainties remain off the charts, but we will close this missive with the reminder offered back in May by *Stocks for the Long Run* author and Wharton professor Jeremy Siegel, “More than 90% of the value of stocks is from earnings more than 12 months in the future.”

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	$44.59	$161.45
9/30/2021	$41.89	$152.78
6/30/2021	$38.08	$141.96
3/31/2021	$36.89	$126.25
12/31/2020	$35.92	$108.86
9/30/2020	$31.07	$112.12
6/30/2020	$22.37	$120.86
ACTUAL		
3/31/2020	$19.50	$138.63
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 7.8.20

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/.

Shares of thinly traded **Greenbrier Companies** (GBX – $25.09) enjoyed a terrific rally Friday as the railcar manufacturer reported fiscal Q3 financial results that were much better than analysts expected ($1.05 in EPS vs. the $0.14 estimate). Despite a negative performance for shares year-to-date and a volatile trading period in June, the optimism Friday added to a 90% climb from the April low. A bounce-back in syndicate orders brought deliveries sequentially higher in the quarter to 5,400 units and supported a 170 bps increase in gross margin compared to a year ago. Revenue of $653 million in the period was roughly 4% lower than in 2019, although a reduction in headcount by 10% in Q3 on top of the 4,000 in Q2 underlies improvement to operating margins (11% in Q3 vs 8.3% in Q1) over the past 3 quarters. While a very high number of cars remain in storage, Greenbrier still boasts a backlog made up of 26,700 units valued at $2.7 billion.

Elaborating on the quarter, COO Lorie Tekorius stated, “We’ve undertaken several hard decisions over the last several months in response to the crisis. And as part of our plan to increase liquidity, we have reduced capital expenditures by $50 million. We have reduced annual overhead expenses at our facilities by $65 million, and we’ve reduced annualized selling and administrative expense by $30 million. This activity has caused us to part from some of our long-time colleagues and, in many cases, friends. But these actions, along with the necessary rationalizing of production capacity in North America, will create a stronger Greenbrier in the long term. Our business remains healthy despite the current commercial environment, and our leadership position in our core markets in North America, Europe and Brazil is unchanged. This requires hard work and continuous focus, but it’s not our first challenge or our first rodeo, and it won’t be our last.”

The company has incorporated health screenings, enhanced social distancing, expanded deep cleaning and split shifts to reduce the impact of COVID-19. On the firm’s response to COVID-19, Ms. Tekorius commented, “Our incident response team continues to coordinate our efforts related to the pandemic. We’re operating under a dual mandate of maintaining business continuity alongside ensuring employee health and safety. We’ve kept our factories and shops continuously operating through the pandemic. Whenever we have a COVID positive case appear at one of our locations, strict adherence to our coronavirus guidelines have ensured the health and well-being of Greenbrier employees, while allowing our essential operations to continue. We’ve undertaken several hard decisions over the last several months in response to the crisis. And as part of our plan to increase liquidity, we have reduced capital expenditures by $50 million.”

CEO Bill Furman capped his remarks by stating, “We’ve seen a great deal happen in a short time. Fortunately, we have a well-earned experienced team, and this is not our first rodeo. No matter what comes next, Greenbrier is tough and Greenbrier is ready. If necessary, we are prepared to manage through the worst of times. Believe me, this is not the worst of times. We’ve had worse recessions in our industry, times — in the ’70s when only 5,000 cars per year were built. That was when we acquired Gunderson, seeing opportunity. And quoting the great Carl Icahn, ‘It’s when things are tough, you want to look for good opportunities.’ Greenbrier is an excellent opportunity for investment. Greenbrier has built an incredible franchise in railcar engineering, manufacturing, lease originations, leasing and management services. We have loyal customers all over the world. We have a strong position in the North American marketplace based on efficient and flexible plans. We manage 1/4 of the North American railcar fleet. In one way or another, we touch that fleet. Greenbrier in the quarters to come will preserve its financial stability, build a large pool of liquidity to deploy sensibly in capital opportunities in the future prudently. And if we’ll focus on our core businesses, we’ll work to shrink our footprint and increase shareholder value as we progress ahead.”

The railroading business is inherently cyclical but continues to be among the most energy efficient modes of transport for freight. Greenbrier’s investments in recent years to broaden its geographic reach will serve to slightly dampen operating volatility, while extending the runway for growth. We think Greenbrier’s integrated business model delivers superior value to its customers and like the conservative approach to its leasing business. We respect management’s priorities of financial stability and profitability in the near-term and believe that Greenbrier is in

a strong competitive position to benefit as the environment eventually normalizes. Shares yield 4.3% and our Target Price has been hiked to $40.

This past Tuesday evening, property and casualty insurer **Allstate** (ALL – $86.97) announced the acquisition of National General Holdings for close to $4 billion in cash. The acquisition, which apparently has been in the works since before the COVID-19 pandemic, is a continuation of management's efforts to expand outside of its core captive agent operations, as it seeks to compensate for declining market share in the channel. Stated plans are to fold ALL's own independent agent business, Encompass, into National General, given the latter's technological superiority.

The deal price isn't exactly a steal in light of possible disruption from COVID-19, but it wasn't necessarily expensive either. The 69% premium to the prior day close values NGHC at 1.78x book and 10.6x 2020 consensus earnings estimates, and is roughly in line with similar deals over the past several years. Management expects the transaction to be accretive from the outset with closing scheduled for early next year, and for an improvement to return on equity by a percent.

At best, the deal is everything management hopes, complete with synergies, et al. At worst, the move is consistent with ALL's core property and casualty business growth strategy. As such, we were a bit surprised by the two-day, 8% decline in shares following the announcement. We continue think Allstate is well-positioned due to its vast and increasing distribution network, scale and resulting cost advantages, pricing sophistication and product design. Shares now offer an intriguing entry point at 8 times expected 2020 earnings while the firm's share repurchase program remains intact. The yield is 2.4% as our Target Price for ALL now stands at $130.

Shares of **Walmart** (WMT – $130.68) gained nearly 10% last week after technology-oriented newspaper *Recode* reported that the retailing giant planned to soon launch its subscription service called Walmart+. According to *Recode*, the subscription will cost $98 per year and will feature same-day grocery delivery, gasoline discounts and subscriber-only deals. The service was first reported in February for a March launch, but the coronavirus outbreak pushed back WMT's plans.

Also last week, *CNBC* reported that Walmart quietly registered to sell insurance as "Walmart Insurance Services LLC" in the Dallas area. The company also has job openings listed on its Careers website. While Walmart hasn't offered any official details, the job description includes a start date in the first week of August 2020, a need for "passionate health insurance professionals to help us build this new business from the ground up" and the notice, "Walmart strives to be a center of wellbeing in the communities we serve, and we have a unique, brand-new opportunity to help millions of people find the best Medicare insurance available."

We are pleased to hear that the delayed Walmart+ launch is likely to be near, which we think it is indicative of some stabilization in the overall business following some very difficult times during and shortly after the quarantine orders around the country. While Walmart has some making up to do competing against Amazon Prime, we think that many households will have both subscriptions. The company's valuation remains on the rich side (with metrics like a forward P/E of 26 and dividend yield of 1.4%), but we like the stability and think that WMT is still deserving

of a spot in our broadly diversified portfolios. Of course, the move leaves us wondering if **Target** (TGT – $118.86) is going to launch a similar service, which we might argue would be a more direct competitor to Walmart+ than Amazon. Our Target Price for WMT is now $139.

Drug and retail concern **Walgreens Boots Alliance** (WBA – $40.12) reported adjusted fiscal 2020 third quarter earnings of $0.83 per share. The figure trailed consensus analyst estimates of $1.19 and on an unadjusted (GAAP) basis, WBA reported a loss of $1.46. Sales in the second quarter were $34.63 billion, edging out analyst estimates of $34.45 billion. Shares fell more than 7% as a result, with management justifying the less-than-stellar results by explaining that COVID-19 caused significant drops in store traffic and big increases for online shopping.

CFO James Kehoe said, "Our third quarter results were significantly impacted by COVID. Firstly, the Boots impairment charge led to a third quarter EPS loss of $1.95, and constant currency adjusted EPS was 43.4% lower than prior year. This decline was mostly due to an estimated negative COVID impact of $0.61 to $0.65. Retail Pharmacy USA delivered sequential improvement in total comp sales with continued improvement in retail performance offsetting a slowdown in scripts. We were faced with significant footfall declines across most of our markets in Retail Pharmacy International and especially in the U.K. This was only partly compensated by much-faster growth from our online businesses. And finally, Pharmaceutical Wholesale delivered yet another strong performance. The other two bright spots in the quarter were cost management and cash flow."

He continued, "Last quarter, given the many variables surrounding COVID, we decided to temporarily suspend guidance. Although there are still many uncertainties, we now have a clearer understanding of the full year impact on our business. We are now introducing guidance for fiscal year 2020 and expect adjusted EPS in a range of $4.65 to $4.75. Furthermore, we estimate the full year impact of COVID to be in the region of $1.03 to $1.14 with the most significant impacts in the U.K. While we do expect to see some improvement in sales trends, U.K. comp sales are expected to remain very weak. Gross margins will remain under pressure in the short term, mainly due to adverse category mix and higher fulfillment costs. In the fourth quarter, we expect U.S. script growth of around 3% to 3.5%, and this remains below the 4.9% pre-COVID run rate. In U.S. retail, sales are off to a strong start in June and suggest a fourth quarter comp sales growth of around 2% to 3%. However, the U.S. retail result will be held back by continued adverse category mix. June margin is around 50 basis points below prior year and it's likely to be in that kind of range for the rest of the quarter. In the U.K., we expect Boots U.K. retail comps to decline by around 40% with retail gross margins down around 400 to 500 basis points. As I said earlier, the U.K. margin declines are mostly due to increased fulfillment costs, reflecting a significant increase in online sales and home delivery."

Mr. Kehoe cautioned, "These assumptions lead to an adverse COVID operating income impact of around $500 million to $575 million for the fourth quarter with around 60% from international. A word of caution here. This guidance is based on the trends we are seeing in the month of June and does not factor in a potential reversal of these trends."

We have long thought that there is safety in many areas of the Health Care sector because people will always be getting sick or need medications. However, COVID's impact has been

unprecedented in that regard, with surgeries and other injuries falling dramatically, as hospitals hunkered down awaiting an onslaught of patients. While that did not pan out in some areas (fortunately), the case numbers that came out over the weekend made it clear that many areas of the U.S. are far from out of the woods. It's certainly possible that states and localities are forced to slow their reopening plans, causing further impacts to WBA and other retailers that depend heavily on foot traffic and "normal" life. WBA has been volatile during our holding period, but we think the company sells critical supplies and once life is more normal, we expect to see WBA benefit. In the meantime, shares remain very inexpensive, trading for just 7.7 times forward earnings with a solid 4.7% yield that was actually increased slightly on July 9. Our Target Price has been trimmed to $82.