Market Commentary Monday, August 3, 2020

August 2, 2020

EXECUTIVE SUMMARY

TPS 646 – August Edition of *The Prudent Speculator* Coming Tuesday Evening / Wednesday Morning
Target Prices – New Listing Will Be Posted to theprudentspeculator.com
Week in Review – Dow Dips, But Average Stock Rises
COVID-19 – Case & Death Counts Rising; Mortality Rate Descending
GDP – Awful (Though Better Than Expected) Q2; Significant Rebound Projected for Q3
FOMC Meeting – Fed Doing All it Can to Support the Economy
Econ Data – Mixed Picture
Interest Rates – Low Rates Good for Home Sales and Stocks
Sentiment – No Love for Equities
Earnings Season – Q2 Numbers Beating the Street
Stock News – Updates on AAPL, QCOM, LRCX, GOOG, GLW, PFE, MDC, ARE, CMI, BASFY, CAT, HAS, GT & CE

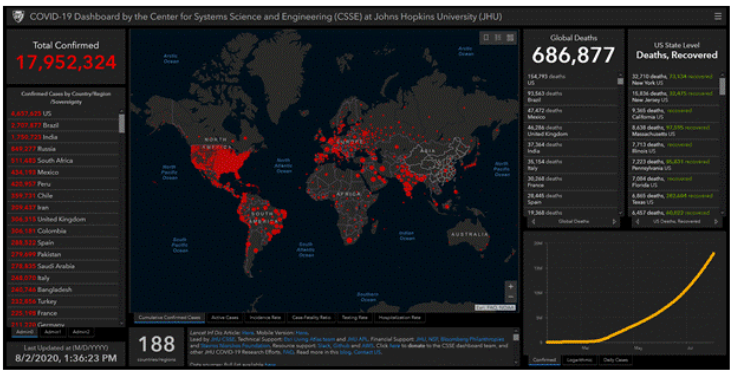
Market Review

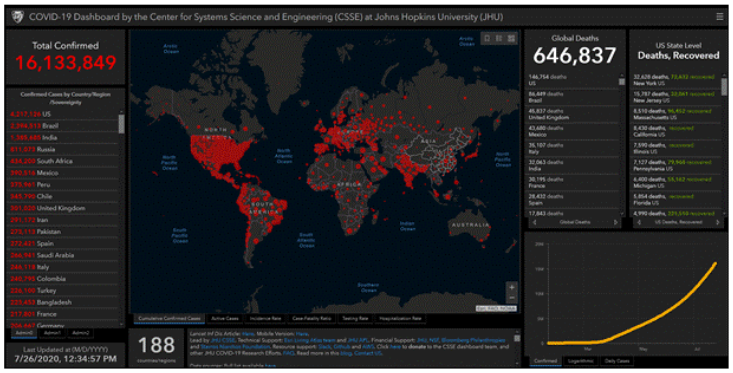
Work is underway on the August edition of *The Prudent Speculator*. If all goes according to Hoyle, *TPS 646* will be emailed late Tuesday evening, August 4, or early Wednesday morning, August 5. This month we have two more first-time recommendations, while our *Graphic Detail* looks at historical stock market return numbers and political-party residency of the White House and control of Capitol Hill given that the November elections are now just three months away. In the interim, we are in the process of posting updated Target Prices for all our recommendations to theprudentspeculator.com.

*****
As in the five trading days prior, the start of the latest week was better than the end, but stocks in general turned in modest gains since last we communicated with this forum. True, the Dow Jones Industrial Average dropped 0.15% last week, while the Russell 3000 Value index dipped 0.17%, but the average stock managed to rise modestly in price, capping a terrific month of July.

The gains of late have been all the more impressive in that the news on the health front, at least here in the U.S., has remained troubling, with spikes in case counts and death tolls in many states and the overall mortality count climbing by more than 1,000 a day.

COVID-19 GLOBAL SPREAD





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

With access to testing markedly higher, there was another jump of more than 1.8 million in global COVID-19 confirmed cases in the latest week. Case counts have surged as economies have reopened, social distancing has waned and mask wearing has been inconsistent, and the U.S. is now up to more than 154,000 fatalities. With deaths lagging cases, we would expect to see a big jump in the former, but the global mortality increase over the last seven days equaled "just" 6.2%, down from 7.2% and 6.6% the two respective week's prior.

Of course, there have been positive developments regarding vaccine efforts, while the populous state of New York reported this weekend that just 556 were hospitalized, "the lowest number since we began," with new COVID-19 diagnoses standing at a very-low 0.09% positive rate. And, we cannot forget that come what may, equities have proved to be very rewarding for those who remember that the secret to success in stocks is not to get scared out of them.

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%	975	27	3.4	3/23/2020	7/22/2020
17.5%	66.4%	569	39	2.4	3/23/2020	7/22/2020
15.0%	66.2%	554	45	2.1	3/23/2020	7/22/2020
12.5%	44.1%	333	72	1.3	3/23/2020	7/22/2020
10.0%	34.8%	243	98	0.9	3/23/2020	7/22/2020
7.5%	23.6%	148	156	0.6	3/23/2020	7/22/2020
5.0%	14.7%	72	304	0.3	6/11/2020	7/22/2020

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 07.22.20. 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	9.6%	21.5%
Dividend Paying Stocks	10.4%	18.1%
Non-Dividend Paying Stocks	8.9%	29.4%
Long-Term Corporate Bonds	6.2%	7.6%
Long-Term Gov't Bonds	5.7%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

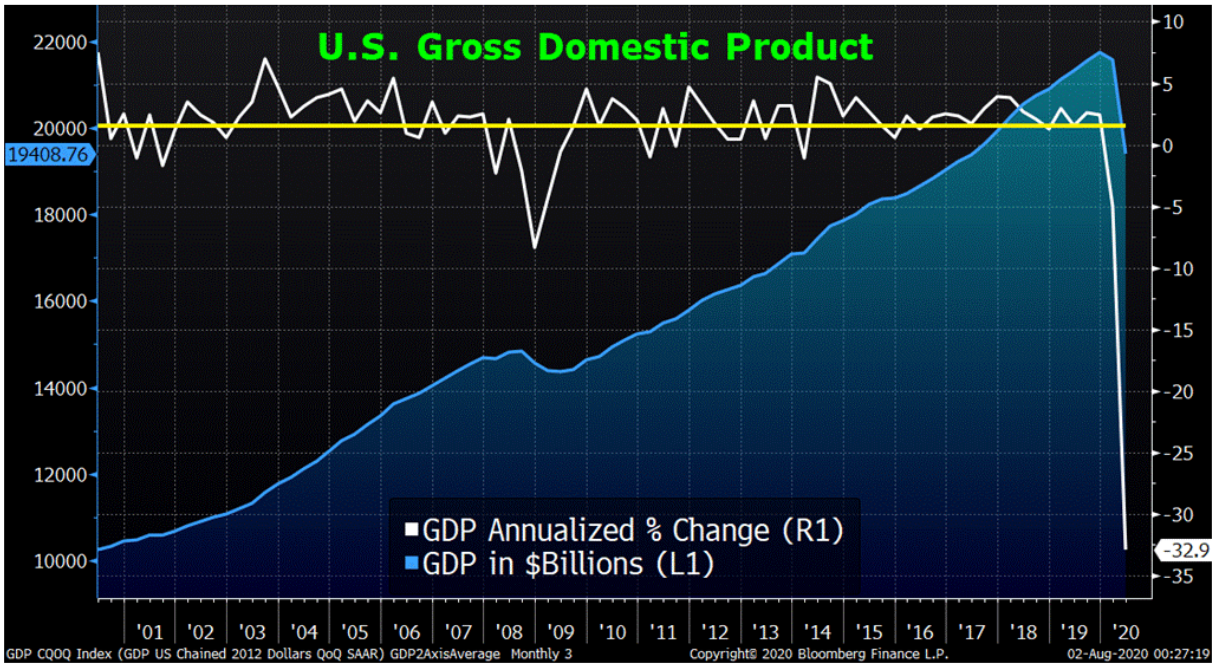
From 06.30.27 through 06.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

To be sure, it hasn't been easy for folks to keep the faith, especially given the devastation COVID-19 and the Great Lockdown have inflicted on U.S. GDP,…

THE PRUDENT SPECULATOR

HORRENDOUS (BUT BETTER THAN EXPECTED) Q2 U.S. GDP

Second quarter real (inflation-adjusted) domestic economic growth came in at an abysmal decline of -32.9% on an annualized basis, but the supposed experts had been calling for an even worse -34.6% plunge.



…but the Federal Reserve has done all that is can to provide support to the financial markets and the economy,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 7.29.20

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. Following sharp declines, economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

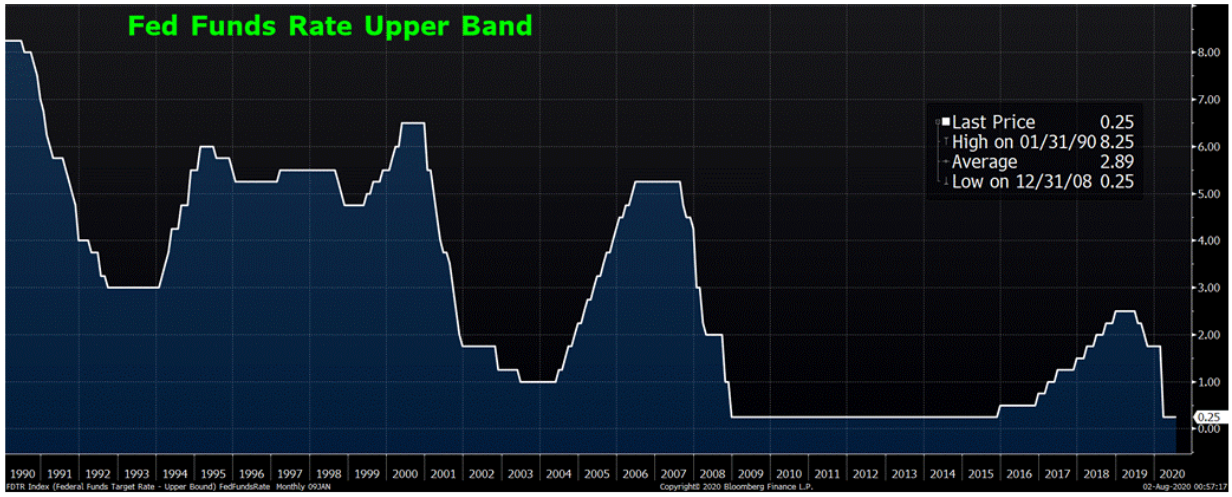
The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

…with Jerome H. Powell & Co. last week deciding as expected to leave their target for the Federal Funds rate at a microscopic range of 0% to 0.25%.

THE PRUDENT SPECULATOR

FEDERAL RESERVE COMMITTED TO USING ITS FULL RANGE OF TOOLS

"The Federal Reserve has also been taking broad and forceful actions to more directly support the flow of credit in the economy for households, for businesses large and small, and for state and local governments...We are deploying these lending powers to an unprecedented extent, enabled in large part by financial backing and support from Congress and the Treasury. We will continue to use these powers until we are confident that we are solidly on the road to recovery. This week, we extended these programs through the end of the year. When the time comes, after the crisis has passed, we will put these emergency tools back in the toolbox." – Jerome H. Powell



Certainly, Chair Powell and the Fed remain very concerned about the economic outlook,…

FEDERAL RESERVE CHAIR JEROME H. POWELL: 7.29.20

At the Federal Reserve, we remain committed to using our tools to do what we can, and for as long as it takes, to provide some relief and stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy.

In recent months, economic activity picked up as the economy began to reopen. Many businesses opened their doors, factories restarted production, and more people left their homes to engage in various activities. As a result, household spending looks to have recovered about half of its earlier decline, although spending for services such as air travel and hotels has shown much less of a pick-up. The recovery in household spending also likely owes to federal stimulus payments and expanded unemployment benefits, which provided substantial and timely support to household incomes. In contrast, indicators of business fixed investment have yet to show a recovery. Even with the improved economic news in May and June, overall activity remains well below its level before the pandemic, and the contraction in real GDP in the second quarter will likely be the largest on record.

The labor market has followed a similar pattern. After precipitous drops in March and April, employment rose strongly in May and June as many people returned to work from temporary layoffs. As a result, of the roughly 22 million jobs that had been lost, about one-third had been regained as of the June payroll report. The unemployment rate declined in May and June but, at 11.1 percent, remains far above its level before the outbreak and greater than the peak during the global financial crisis. In addition, the downturn has not fallen equally on all Americans, and those least able to bear the burden have been the most affected. In particular, 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 upended many lives and created great uncertainty about the future.

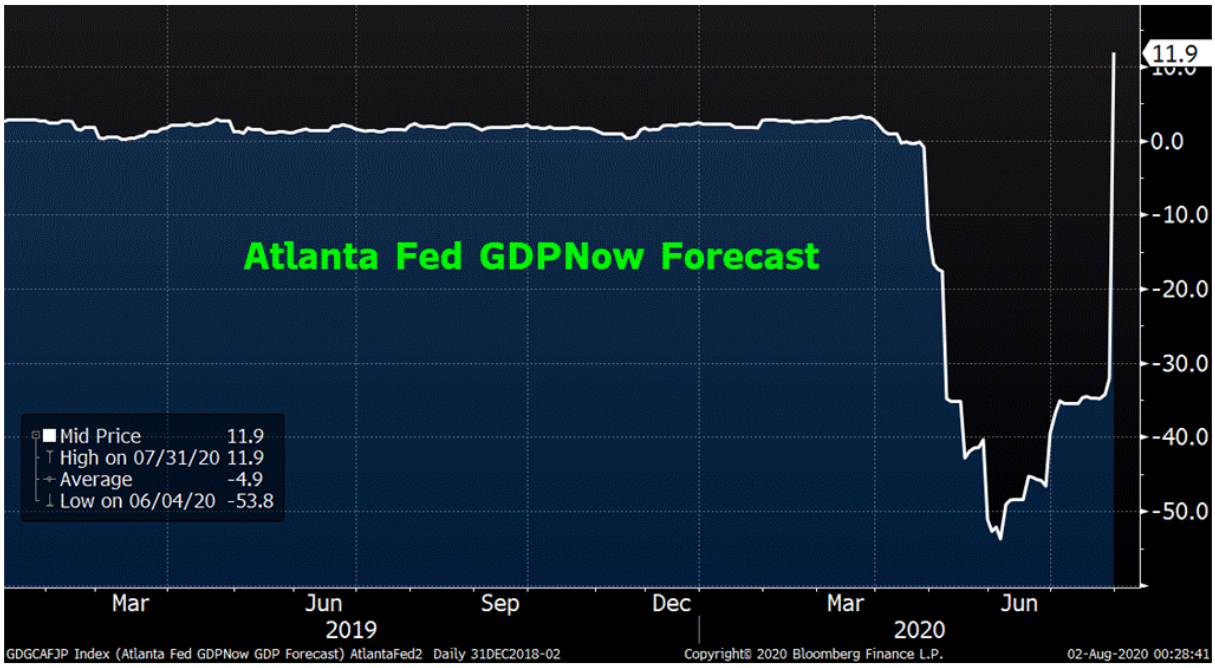
Along with the recent increases in economic activity have come new challenges. After declining gradually from a peak near the end of April, the number of COVID-19 cases has increased sharply in many parts of the country since mid-June. We have thus entered a new phase in containing the virus, which is essential to protect both our health and our economy. As we have emphasized throughout the pandemic, the path forward for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check. Indeed, we have seen some signs in recent weeks that the increase in virus cases and the renewed measures to control it are starting to weigh on economic activity. For example, some measures of consumer spending based on debit card and credit card use have moved down since late June, while recent labor market indicators point to a slowing in job growth, especially among smaller businesses. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities.

…even as a significant rebound in GDP is likely this quarter,…

THE PRUDENT SPECULATOR

SIGNIFICANT BOUNCE IN U.S. GDP EXPECTED IN Q3

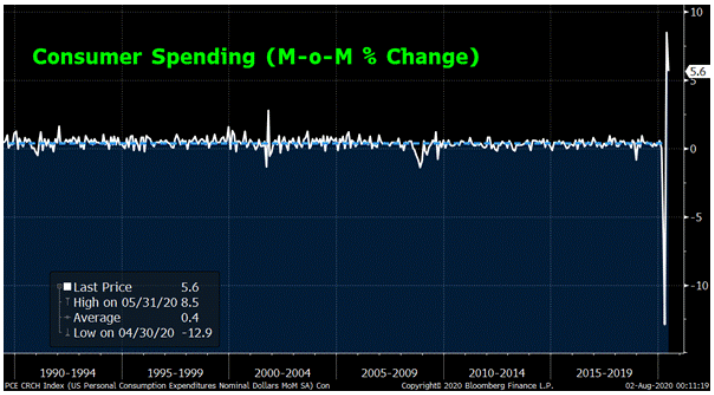
While a rebound is almost a mathematical certainty, given the magnitude of the massive Q2 economic contraction, the Atlanta Fed is now projecting an 11.9% increase in GDP in Q3 on an annualized basis.

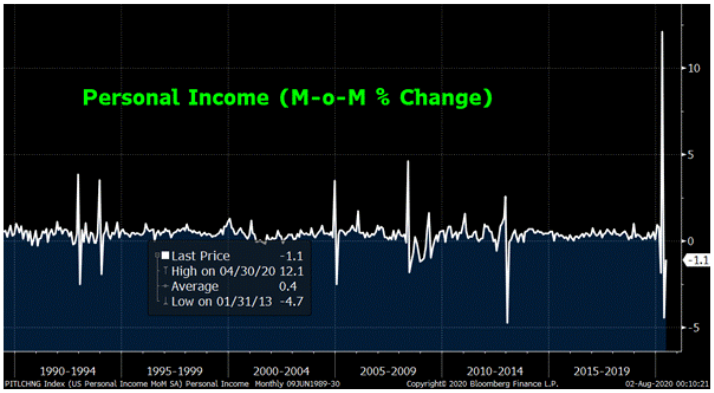


…as there has been plenty of pent-up demand to spur consumer spending,…

THE PRUDENT SPECULATOR

CONSUMERS SPENDING AGAIN BUT THE SAVINGS RATE REMAINS HIGH

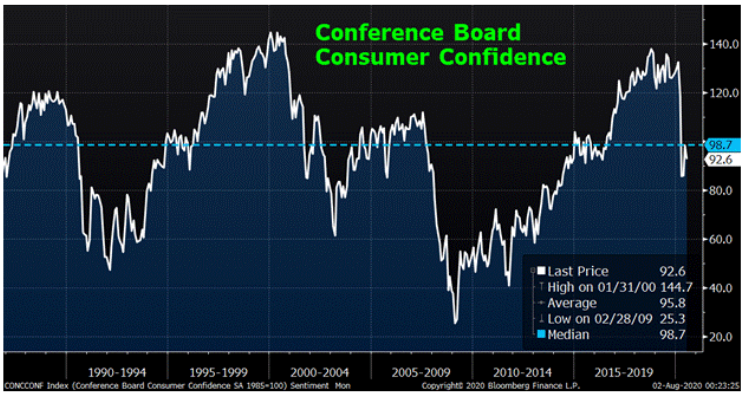


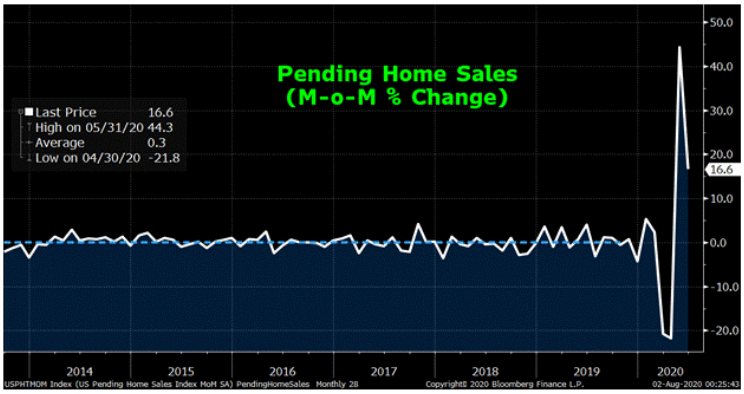


With more businesses reopened, consumer spending continued its bounce in June, rising 5.6%, the second-best increase in history, after May's 8.5% jump. Personal income declined by 1.1% in June after dropping by 4.4% in May, no doubt hit by the winding down of government stimulus. Still, even as spending soared and incomes shrank, the savings rate remained at a very robust 19.0%, near the highest level in modern times.

…and enough optimism about the future for many folks to be comfortable enough to buy the biggest-ticket item just about anyone will purchase in their lifetimes.

AMERICANS CONFIDENT ENOUGH TO BUY HOMES





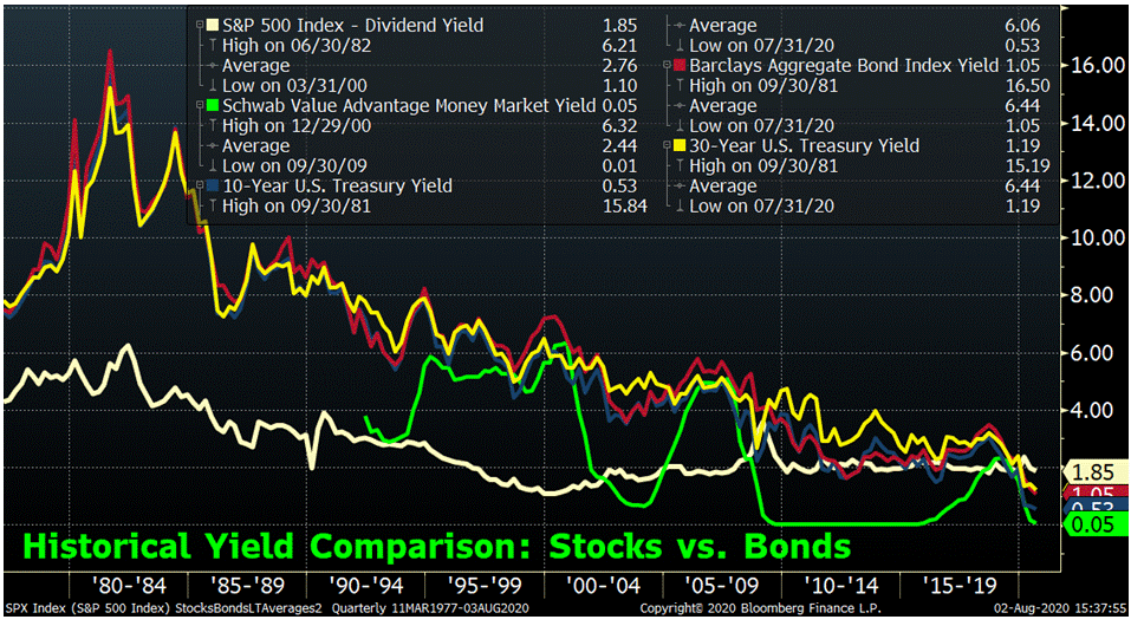
Consumer confidence pulled back to 92.6 in July, down from a revised 98.3 in June, even as a gauge of how those folks feel right now actually rose by 7.5 points. Of course, the future expectations (next six months) component of the Conference Board's index fell to a four-month low, but consumers have been confident enough to continue to buy houses, with an index of pending home sales rising a hefty 16.6% in June.

No doubt, common sense suggests that incredibly low mortgage rates are boosting the housing market, and that same logic supports our continued assertion that interest rates near zero are also a huge factor in favor of equities.

THE PRUDENT SPECULATOR

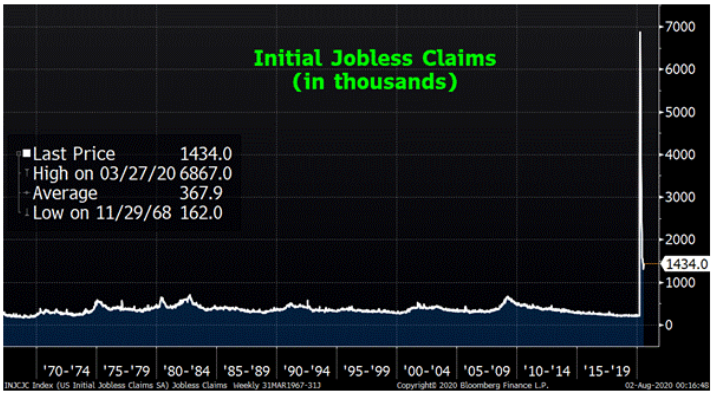
EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.85%) 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 37 times a "generous" Money Market Fund**!



That does not mean that the four-month rebound in stock prices will continue unabated, as the economic data going forward is likely to be wobbly, given that there are still millions of Americans out of work,…

MIXED ECONOMIC NUMBERS



The headline number for durable goods orders in June topped estimates with a gain of 7.3%, one of the best monthly upturns on record dating back to 1990. Excluding volatile transportation orders, durable goods orders also rose a solid 3.3%. That said, 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 19 weeks to more than 54 million.

…but history would suggest that this is a favorable time to be moving toward equities,…

VALUE STOCKS HAVE OUTPERFORMED COMING OUT OF RECESSION

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

S&P 500 and Fama/French Value Performance

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

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

…especially as many investors are seemingly running away from stocks,…

SENTIMENT: NO ENTHUSIASM FOR STOCKS

Pessimism among individual investors continues to be unusually high, climbing to more than 18 points above normal in the latest AAII Sentiment Survey. Bullish sentiment is nearly 18 percentage points below normal.

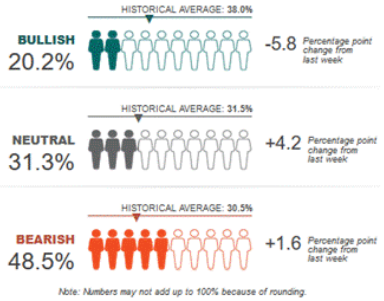
We remain perplexed that many supposed market experts continue to argue that investors are piling into stocks, given that the latest data on mutual and exchange traded fund flows from ICI shows a massive exodus from U.S. stocks and a continued infatuation with bonds.

AAII Investor Sentiment Survey

Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.

Survey Results for Week Ending 7/29/2020

Data represents what direction members feel the stock market will be in next 6 months.



Note: Numbers may not add up to 100% because of rounding.

The AAII Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/22/2020	7/15/2020	7/8/2020	7/1/2020	6/24/2020
Total Equity	-11,396	-18,772	-9,310	-22,863	-17,244
Domestic	-7,889	-16,781	-6,050	-14,309	-12,762
World	-3,507	-1,991	-3,259	-8,554	-4,482
Hybrid	-641	-1,732	-293	-1,841	-1,382
Total Bond	23,107	14,523	23,235	18,739	25,090
Taxable	19,485	12,780	21,391	16,438	22,216
Municipal	3,622	1,743	1,844	2,300	2,874
Commodities	2,229	1,035	1,575	1,036	2,469
Total	13,299	-4,947	15,207	-4,929	8,933

Source: Investment Company Institute

…which 33 years of evidence suggests is a terrific contrarian buy signal.

AAII SENTIMENT – CONTRARIAN 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 7.30.20 at -28.2, the 41st lowest reading in the 33-year history of this sentiment indicator. Not surprisingly, forward returns have been very good, on average, when investors are nervous.

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	861	0.26%	0.22%	1.23%	1.09%	3.41%	3.02%	6.28%	5.56%
ABOVE	8.0	62.9	860	0.15%	0.13%	0.44%	0.35%	1.82%	1.56%	4.56%	4.08%
	Ten Groupings of 1721 Data Points										
1	-54.0	-15.0	172	0.51%	0.44%	2.02%	1.78%	5.14%	4.57%	8.24%	7.09%
2	-15.0	-7.3	172	0.39%	0.37%	0.98%	0.85%	3.67%	3.32%	6.08%	5.34%
3	-7.3	-1.4	172	0.29%	0.26%	1.60%	1.50%	3.24%	2.84%	6.93%	6.29%
4	-1.4	3.0	179	0.07%	0.03%	0.94%	0.85%	2.62%	2.26%	5.96%	5.46%
5	3.0	7.9	165	0.05%	0.02%	0.56%	0.46%	2.38%	2.12%	4.16%	3.61%
6	8.0	12.0	175	0.09%	0.06%	0.48%	0.36%	1.68%	1.44%	5.42%	5.04%
7	12.0	16.3	170	0.17%	0.15%	0.54%	0.44%	2.26%	2.00%	4.96%	4.42%
8	16.4	22.0	178	0.16%	0.15%	0.68%	0.61%	1.96%	1.69%	5.60%	5.18%
9	22.0	29.2	165	0.07%	0.05%	0.25%	0.16%	1.84%	1.55%	4.12%	3.53%
10	29.2	62.9	173	0.26%	0.24%	0.26%	0.19%	1.37%	1.14%	2.63%	2.19%

From 07.31.87 through 7.30.20. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Yes, we respect that many are worried today about the resurgence of COVID-19, new hostilities in U.S.-China-relations and potentially disconcerting developments on the campaign trails, but we are afraid that those waiting for an "all-clear" signal to buy stocks will forever remain on the sidelines.

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%	190%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	151%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	173%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	128%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	129%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	98%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	78%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	64%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	61%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	59%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		55%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		63%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		58%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		74%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		55%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		53%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**66%**	**93%**

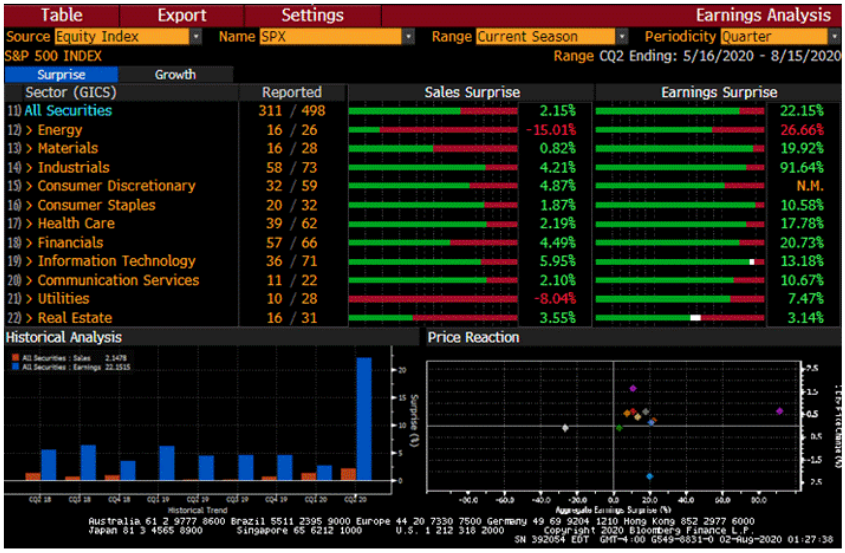
Source: Kovitz Investment Group using data from Bloomberg. As of 7.31.20

Stock Updates

Second quarter earnings reporting season kicked into high gear last week. We are now three weeks in, and the numbers continued to be very good relative to subdued expectations. With 312 members of the S&P 500 having announced results, per data from Bloomberg, 84.9% have topped analyst projections, much better than the usual 70% or so that beat Wall Street forecasts.

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

Q2 reporting season has been very good, relative to analyst projections that have been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be miserable, but a significant rebound is projected next year.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.76	$161.46
9/30/2021	$41.79	$152.58
6/30/2021	$38.23	$142.05
3/31/2021	$36.68	$126.41
12/31/2020	$35.88	$109.23
9/30/2020	$31.26	$112.53
6/30/2020	$22.59	$121.08
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 7.23.20

Management team outlooks have been very subdued and forward guidance ranges have been broad if they are provided at all, but Jason Clark, Chris Quigley and Zach Tart look at a baker's dozen plus one of our companies that posted quarterly results 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/.

Technology hardware designer and manufacturer **Apple** (AAPL – $425.04) earned $2.58 per share in Q3 2020 (vs. $2.07 est.). AAPL had sales of $59.7 billion (vs. $52.3 billion est.). Shares gained 7% in Friday's trading session, smashing the previous all-time record and pushing the company's market capitalization within striking distance of $2 trillion. Apple reported 2% growth in iPhone revenue for the quarter, despite having to shut down its stores for varying lengths of time in many regions. The company attributed the growth to better-than-expected May and June sales due to a strong launch for the refreshed iPhone SE.

Apple also announced a 4-for-1 split, which is largely inconsequential for shareholders and will not affect Apple's weight in any of the major indexes except for the Dow Jones Industrial Average, which is price-weighted (meaning that the index depends on the share price–a relic from a time when computers didn't exist–rather than the more common market capitalization

method). It is expected to fall from 1st place in weight to near 15th place. The split is expected to happen at the end of August.

CEO Tim Cook said, "Apple's results this quarter are only possible due to our people and their ongoing ingenuity, flexibility, resilience and determination during these ever-changing times. I want to thank our AppleCare and retail teams, who have paired exceptional service during a time of intense demand with great adaptability during a quarter where stores have reopened in some places and reclosed in others. A dedicated team of specialists and experts has shouldered the task of caring for the well-being of our teams and communities, store by store, location by location with evidence-driven granularity and agility that is unrivaled anywhere."

Mr. Cook concluded, "Looking forward, we are profoundly optimistic about Apple's future. And we recognize that with this success comes a real responsibility to lead with our values because those values help make that success possible in the first place. We are just as proud of our announcement this month that Apple will be fully carbon-neutral by 2030 across our entire supply chain and including the energy use of every device we make as we are of any hardware innovation because they spring from the same instinct to leave the world better than we found it. We're committed to standing with those marching for the lives and dignity through our new $100 million commitment to Apple's Racial Equity and Justice Initiative. And we're deepening our diversity and inclusion efforts internally because our future as a business is inextricably linked with the future of our communities."

We were pleased to see the solid iPhone SE launch and were a bit surprised, as was the market apparently, that the closure of Apple Stores seemed to have little effect on the company's overall business. With little resistance to slow demand for Apple's devices and the ecosystem strong as ever, we think that Apple's outlook remains bright. Of course, the yield is down to 0.8% and the forward P/E is 29, but EPS growth is expected to be 8% or more each of the next three years and the company continues to grow Apple TV, wearables and other business lines. With fractional sales over the years keeping our overall position size within our comfort zone in our broadly diversified portfolios, we are OK with AAPL's still-large current weighting and we have raised our Target Price to $441.

Semiconductor designer **Qualcomm** (QCOM – $105.61) earned $0.86 per share in fiscal Q3 2020 (vs. $0.70 est.). QCOM had sales of $4.9 billion (vs. $4.8 billion est.). Shares climbed a whopping 15% following the announcement, boosted by the company's announcement that it settled a long-running legal battle with Huawei over QCOM's patents for approximately $1.8 billion. The settlement is not included in EPS figures for Q3 and will be included in Q4 for amounts due related to prior-period licensing.

CEO Steve Mollenkopf commented, "We remain focused on executing on the significant growth opportunities that we have in place today in the handset space. As you would expect, we are also working in parallel to position Qualcomm for similar success as 5G moves beyond smartphones. We see a significant market transition occurring as the cloud converges with 5G and AI, positioning 5G as the next evolution of the Internet. This new architecture at the edge plays directly to our strengths in low power, high-performance computing and connectivity, where Qualcomm's wireless innovation leadership can drive new opportunities for growth as we have

in 5G-enabled smartphones. We are very excited about our 5G future and our ability to commercialize the breakthrough technologies that will drive differentiation for Qualcomm over many years."

On the topic of Huawei, Mr. Mollenkopf said, "We recently signed a new long-term global patent license agreement with Huawei, including a cross license granting back rights to certain of Huawei's patents. We also entered into an agreement settling amounts due under the prior license agreement. We are pleased to have successfully reached resolution with Huawei. Alex Rogers and the Qualcomm Technology Licensing team have done an outstanding job in executing over 100 agreements covering 5G and building, by a wide margin, the most extensive licensing program in mobile. This is a tribute to our track record of driving important and fundamental innovation. With the signing of the Huawei agreement, we are now entering a period in which we have multiyear license agreements with every major handset OEM."

Looking ahead, CFO Akash Palkhiwala added, "We estimate fourth quarter GAAP revenues to be in the range of $7.3 billion to $8.1 billion and GAAP EPS of $2.12 to $2.32, which includes the revenue related to the settlement with Huawei. We expect fourth quarter non-GAAP revenues of $5.5 billion to $6.3 billion and EPS of $1.05 to $1.25. This guidance includes an impact of greater than $0.25 due to the reduction in handset shipments due to COVID-19, including a partial impact from the delay of a 5G flagship phone launch."

Qualcomm refinanced $2 billion of debt in the quarter and paid $733 million in dividends, although the company's stock repurchase program remains suspended. While we had substantial debates internally about letting our shares go on the pop when AVGO approached QCOM and offered $79 per share a few years ago, it seems that our hesitancy to do so paired with the Trump Administration's move to torpedo the deal was a blessing in disguise. A long-time master litigator, we are pleased that QCOM is moving past many of its patent disputes and towards the 5G roll-out. Despite shares being at all-time highs, the company sports a forward P/E ratio around 18, with the figure falling to 17 in 2021 and 15 in 2022. Our Target Price for QCOM has been increased to $117. QCOM shares still yield a very generous 2.5%.

Semiconductor equipment firm **Lam Research** (LRCX – $377.16) posted earnings per share of $4.78, versus the $4.06 estimate, in fiscal Q4 2020. LRCX had sales of $2.8 billion, versus the $2.7 billion estimate. The top- and bottom-line beats caused shares to rise 4.9%, thanks to solid operating margins and growing investment in NAND and DRAM markets. LRCX expects volatility from COVID-19, but management believes that growing reliance on semiconductors from individuals and businesses given the growth in the working-from-home population should drive demand in the future.

CEO Tim Archer commented, "Lam delivered a very strong June quarter, and we see continued strength ahead. We are seeing positive momentum in our efforts to grow our installed base revenue, expand our served markets and increase our market share. And as a result, we believe we are increasingly well positioned to benefit from the long-term secular growth drivers in the semiconductor industry."

CFO Doug Bettinger added, “For the September 2020 quarter, we are expecting revenue of $3.1 billion, plus or minus $200 million. Gross margin increasing to 46.5%, plus or minus 1 percentage point. Operating margins of 29.5%, plus or minus 1 percentage point. And finally, earnings per share of $5.15, plus or minus $0.40 based on a share count of approximately 147 million shares. These ranges remain wider than normal due to the continuing uncertainty from COVID-19. We are well positioned for the second half of calendar 2020 as we expect continued healthy WFE investments. We see continued strength from memory, and foundry for that matter, driven by demand and more strategic technology-oriented investments. The customer support business group is also expected to provide continued momentum for the company.”

Lam shares have gained some 30% this year, interrupted only by 45% drop in Q1 related to the coronavirus. The momentary panic quickly resolved, and Lam seems to be firing on all cylinders now. We believe that LRCX can benefit from numerous technological jumps in the future, including 5G, more video streaming at higher bandwidths and growth in NAND storage. The company is sitting on $6.7 billion in cash, which is offset by $5.8 billion of debt, a formula for opportunistic spending we believe particularly valuable in this climate. Management repurchased only a small number of shares at the end of June, with buyback activity seemingly likely to resume now that the company has a “better line of sight” in this business environment. Our Target Price for LRCX has been lifted to $402.

Search engine and internet technology leader **Alphabet** (GOOG – $1482.96) earned $10.13 per share in fiscal Q2 2020 and had sales of $31.6 billion. Both numbers were very good, all things considered, but shares skidded 3.2% on the news, as overall advertising revenue unsurprisingly dropped year-over-year on account of COVID-19. The dip in ad revenue was offset by gains in Google Cloud and Google Other revenue, though data center costs and traffic acquisition costs for YouTube TV and YouTube Music dampened the quarter.

CEO Sundar Pichai explained, “The macroeconomic environment caused by the pandemic created headwinds for our business. Our revenue declined on a reported basis and is flat year-over-year on a fixed FX basis. Like other companies, this quarter, we saw the early signs of stabilization as users return to commercial activity online. This is true across most of our advertising verticals and geographies. Of course, the economic climate remains fragile. We delivered strong growth in our non-ads revenues particularly from Cloud, Google Play and YouTube subscriptions. This, in turn, is helping our partners, developers and creators earn revenue and deliver valuable services to people. We are focused on the steps to build long-term value with these opportunities.”

CFO Ruth Porat added, “As we discussed on last quarter’s earnings call, global macroeconomic performance has tended to be correlated with ad spend and is a key signal to monitor. Over the long term, we remain optimistic about the underlying strength of our business.”

Total cost of revenue and traffic acquisition costs (TAC) were up 7% year-over-year. Shares of Alphabet are up about 11% this year, having risen strongly from the low of $1054 on March 23. Google, like many IT companies, stands to benefit substantially from the shift to remote work and by increased viewing of YouTube. However, the company’s sizable exposure to advertising–historically a major strength–is likely to adversely impact results in the nearer term.

We think the long term for Alphabet remains bright, and while the company's valuation is on the expensive end (including a forward P/E near 25), we believe the terrific balance sheet ($105 billion in net cash or $154 per share) and great opportunity ahead make it an attractive holding. While GOOG still doesn't pay a dividend, we see the ongoing share buyback as a near-equal, which Alphabet spent $6.9 billion on last quarter. Our Target Price now stands at $1,754.

Electronic components maker **Corning** (GLW – $31.00) earned $0.25 per share in fiscal Q2 2020 (vs. $0.12 est.). GLW had revenue of $2.6 billion, versus the $2.4 billion estimate. Corning benefited from strong demand for premium products in the Mobile Consumer Electronics segment, as well as growing demand in the Automotive and Optical Communications businesses. While shares gyrated more than usual on the earnings news, they ended the week nearly 6% higher and remain up some 75% from the March 23 low.

CEO Wendell Weeks commented, "We're effectively adjusting to this period of uncertainty with decisive action and operational execution. We're generating positive cash flow and maintaining a strong balance sheet; second, even in these uncertain times, our strategy to deliver for our customers and outperform our markets is working. We're continuing to lead in the capabilities that make Corning distinctive. In fact, we advanced multiple growth initiatives during the quarter." Corning's Life Sciences business is "mobilizing its capabilities" to be ready for a surge in demand related to COVID-19 vaccines coming to market. The company is working with the U.S. Dept. of Health & Human Services and the Dept. of Defense to accelerate production of Valor Glass packaging.

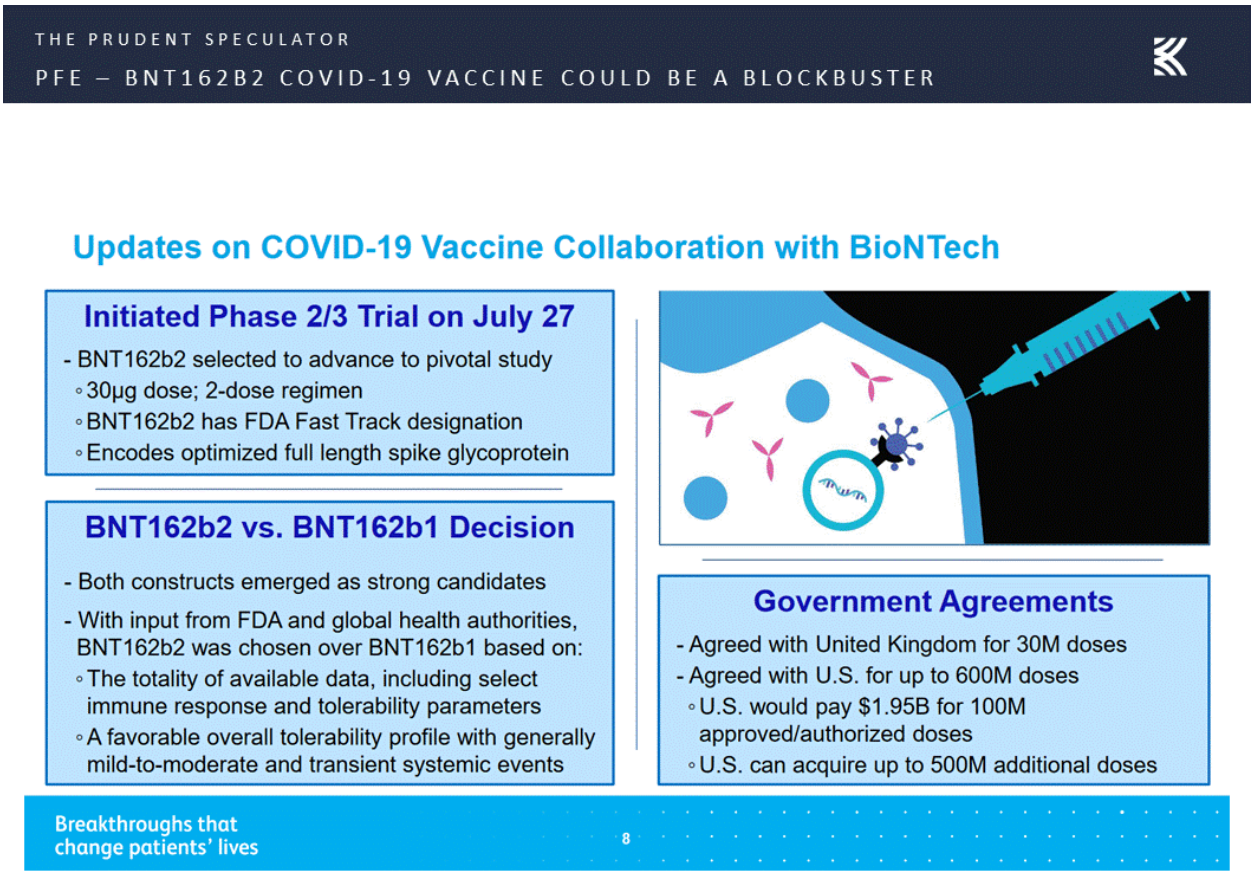
Historically, GLW has been a big repurchaser of its own shares, but the buyback program is paused at the moment given the uncertainty related to COVID-19. Management does not expect to add a material amount of debt in 2020 and the quarterly dividend of $0.22, payable on September 30, translates to a yield of 2.8%. The last few years for GLW have been lumpy, both for the stock and for earnings, but we think that the company's glass products are superior to other products out there, while Corning's diversification offers an additional level of stability. We also think that the company has a strong management team that has achieved stated long-term goals consistently despite the occasional curve ball. GLW trades around 21 times NTM adjusted EPS expectations, which is expected to fall to just 15x by 2022 at GLW's present price. Our Target Price has been increased to $41.

Shares of **Pfizer** (PFE – $38.48) were up a bit over 2% last week on the heels of the pharma giants Q2 financial release, and news of continued progress on its potential COVID-19 vaccine with partner BioNTech. Revenue for the second quarter was $11.8 billion, slightly better than expectations, and bottom-line results of $0.78 were almost 14% ahead of the consensus forecast of $0.69. In Q2, total sales fell 3% as headwinds including COVID-19 disruptions and generic Lyrica competition outweighed gains from oncology drugs, rare-disease drug Vyndaqel, and cardiovascular drug Eliquis. We are expecting sales growth to accelerate as COVID-19 disruptions ease and the impact from generic Lyrica annualizes.

PFE CEO Dr. Albert Bourla explained, "Our strong performance in the first half of the year highlights the resiliency of our business even during the most challenging times. The Biopharma business grew 9% operationally in the first six months of the year, driven by strong performances

from many key brands. Upjohn faced the expected headwind of generic competition for Lyrica in the U.S. that was partially offset by strong performance in China in second-quarter 2020. We continue to progress toward a successful close of our transaction with Mylan, now expected in the fourth quarter of 2020."

Dr. Bourla continued, "We remain fully committed to confronting the public health challenge posed by the COVID-19 pandemic by collaborating with industry partners and academic institutions to develop potential approaches to prevent and treat COVID-19. Our researchers and scientists have made important progress toward developing an effective vaccine though significant additional work remains. I want to thank all of our R&D colleagues who continue to work tirelessly to find a potential vaccine and treatments that could bring an end to this pandemic. I would also like to acknowledge the remarkable job that our manufacturing team has done throughout this crisis to ensure our medicines continue to reach patients in need."



CFO Frank D'Amelio added, "We raised the midpoint of our 2020 financial guidance range for revenues and Adjusted diluted EPS for Total Company and for New Pfizer while reaffirming the ranges for all other financial guidance components. While our near-term outlook has greater macroeconomic uncertainty than usual due to COVID-19, we are confident that the long-term outlook for our businesses remains solid. Overall, I was pleased with our financial performance

in second-quarter 2020, which demonstrated the durability of our business despite the challenges that the COVID-19 pandemic has presented."

Mr. D'Amelio concluded, "Despite the ongoing impact of COVID-19, 2020 is still expected to be a transformational year for Pfizer. Following the pending close of the Upjohn-Mylan transaction, now expected in fourth-quarter 2020, New Pfizer will be positioned to deliver revenue and Adjusted diluted EPS growth that is expected to be among the industry leaders. New Pfizer will be a smaller, science-based company with a singular focus on innovation while also continuing to allocate significant capital directly to shareholders, primarily through dividends."

While the UpJohn divestiture creates understandable questions for investors, we still believe that the market under-appreciates New Pfizer's emerging pipeline of products and management's increasing confidence in its organic growth potential. We also like that during these unprecedented times, the company generates solid free cash flow. With a yield of 4.0%, our Target Price for PFE has been bumped up to $49.

Shares of **MDC Holdings** (MDC – $44.83) jumped more than 11% last week following a strong quarterly earnings release from the U.S. homebuilder. Adjusted EPS for Q2 came in at $1.31, 57% above the consensus forecast. Revenue also beat expectations, by almost 10%, coming in at $887 million. The company said that its backlog dollar value was up 23% year-over-year to $2.37 billion and that the dollar value of net new orders increased 8% year-over-year to $1.04 billion, with unit net orders rising 5% to 2,390.

CEO Larry A. Mizel commented, "MDC experienced a remarkable turnaround in the second quarter of 2020, as order activity rebounded sharply from the initial weeks of the pandemic. Unit net orders for the quarter rose 5% year-over-year and increased 53% for the month of June, with our sales efforts gaining momentum as the quarter progressed. We also generated strong revenue growth and margin expansion in the quarter, resulting in net income of $84.4 million, or $1.31 per diluted share."

Mr. Mizel continued, "Our results this quarter reflect the favorable industry dynamics in place today, including a low interest rate environment, a lack of available supply and a highly motivated buyer. They also reflect our continued shift in focus to the more affordable segments of the market and the benefits of our build-to-order strategy, which caters to the wants and needs of a large segment of the buying population. We believe that providing homebuyers with flexibility and choice at an affordable price is a winning strategy for our company. Given the favorable market conditions we are experiencing, we now believe that we may achieve as many as 8,000 home deliveries for the 2020 full year, which would be a 15% increase from the prior year."

Mr. Mizel concluded, "While there are still many uncertainties regarding the pandemic's impact on our industry and the broader economy, MDC is well positioned for the future given our seasoned leadership team, our strategic focus and our balance sheet strength. I want to thank all of our team members who have done such an excellent job adapting to this new reality and who have been vigilant in providing a safe environment for our employees, suppliers and customers."

While COVID-19's full impact on the economy in general is still unknown, we believe that MDC is poised for long-term success. Interest rates are extraordinarily low and probably will remain that way, which should help MDC as the cost of borrowing for both it and its potential customers remains extremely attractive. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet ($1.52 billion of liquidity) that the company can draw from if it must remain in a defensive posture through the crisis or can use to smartly acquire land in attractive markets. Additionally, we like MDC's focus on first time buyers (many Millennials) with its Seasons collection of homes. Despite the strong rebound in the stock, MDC's dividend yield is still 2.9%, well above that of the 10-year U.S. Treasury Note (0.53%). Our Target Price for MDC has been boosted to $55.

Alexandria Real Estate (ARE – $177.55) delivered another good quarter and saw its shares rise 5.3% last week. Funds from operations for the medical properties real estate investment trust in Q2 matched the consensus estimate of $1.81 and the company tightened its full-year FFO guidance to a range of $7.26 to $7.34. With life sciences one of the few growth areas of office real estate, we were pleased to learn that ARE ended the quarter with its lowest receivables balance ($7.2 million) since 2012. The company said that it made $215 million in acquisitions in Q2, and that full-year guidance is $1.35 billion in new/redevelopments, $1.8 billion in acquisitions and $1.3 billion in non-core dispositions. Management now expects to end 2020 with an $890 million cash surplus following its recent forward equity raise and the increase in expected asset sales.

Co-CEO Stephen Richardson commented, "We're pleased to report a healthy, dynamic and positive operations and market reality for the company. Brand loyalty is evident as Alexandria's tenants garner great value in our delivery of excellence in all operational matters. And as such, the company has collected 99.5% of accounts receivable during the second quarter and 99.3% during July so far. Truly, a testament to both the quality of the companies we serve and the great work by our operations team."

Mr. Richardson continued, "During Q2, we outperformed our Q1 leasing activity with a total of 1,077,000 square feet lease. And as we've noted now the past several quarters, this contribution is coming from all regions with this quarter significant leasing statistics highlighted by San Diego's activity, great kudos to the team there. The rental rate increases continue to be strong with 15% cash and 37.2% GAAP during Q2. Early renewals year-to-date are consistent at our historic levels of 69% and during Q2, we exceeded that with a figure of 78%. Solid occupancy. We are at 94.8% across 28.8 million square feet in the operating portfolio. And taking into account lease up opportunities that two recent key projects in San Diego and South San Francisco would otherwise be at 97.1%."

SVP Jenna Foger shared on the earnings call, "Life science fundamentals remain strong as the biopharma industry represents the beacon of hope and absolutely essential in the fight against COVID-19. We are currently tracking over 80 tenants across our cluster markets, who are advancing solutions for COVID-19 and we owe a tremendous debt of gratitude to their heroic work…Clearly, a safe and effective vaccine should help bring about the effective end of the COVID-19 pandemic, and as a prerequisite to fully reopen society and restore the global economy. As was mentioned, the administration has allocated $10 billion with the Operation

Warp Speed initiative and has awarded grants to a handful of company partners, almost all of which are Alexandria tenants, including AstraZeneca, Emergent BioSolutions, Johnson & Johnson, Moderna, Novavax and Pfizer."

We continue to like that Alexandria is the premier name in the space. We see ARE's base of tenants as defensive and expect both public and private capital to continue to flow into biomedical research. Alexandria is well capitalized and has a strong backlog of development opportunities to support future growth. The current dividend yield is 2.4% and our Target Price has been hiked to $218.

Industrial workhorse **Cummins Inc.** (CMI – $193.26) produced Q2 financial results that smashed analyst expectations, earning $1.86 per share (vs. $.93 est.). Shares rose 6% on the news, extending the rocket ride that resulted in a double from the March 23 trough to a recent peak in late July. Despite the largest year-over-year revenue decline in company history (38% versus Q2 2019), aggressive expense management contributed to an EBITDA margin of 14.3%. China was a bright spot in the quarter as the only geographic segment to see gains. A recovery in demand after reopening drove a 63% increase in excavator sales while Cummins' market share grew 100 basis points to 17%.

CEO Mark Lineberger commented, “I want to thank our employees all over the globe for their dedication to our company and to our customers. They continue to work safely and effectively through an incredibly challenging period, with unprecedented disruptions to global demand and supply, to their work processes, and to their daily lives. In the face of the most severe decline in quarterly sales in our history, we delivered solid profitability while meeting commitments to our customers who provide products critical to the functioning of the global economy. Our people demonstrated remarkable flexibility as did our operations and supply chain. A pronounced example of our organization’s agility in this challenging period was our ramp up in China, where many of our facilities went from complete shut down in February and March to producing record volumes in the second quarter.”

He continued, “While customer demand did improve in some regions as the quarter progressed, significant uncertainty around the pace of recovery in our markets remains, requiring a continued strong focus on managing expenses and cash flow. Our strong financial position will enable us to continue to prioritize our investments in technology and new products including advanced diesel engines, battery electric powertrains, fuel cells, and hydrogen electrolyzers that will help drive future profitable growth.”

Management chose not to provided forward guidance for another quarter, given the wide range of future outcomes related to how the pandemic may affect demand in the near term. That said, Cummins operates from a position of significant financial strength. And, the ability to remain profitable despite such a decrease in the firm’s top line should support research and development spending to expand the product base while gaining market share for existing products. We continue like our exposure to CMI, given these advantages as the market discriminates (as it has throughout the pandemic) between the haves and have-nots, though we note that the stock has moved to the pricey side of the fence, especially for a cyclical company with plenty of competition. Shares yield a respectable 2.7% and now trade for more than 16 times trailing-12-month earnings. Our Target Price has been boosted to $210.

German chemical maker **BASF SE** (BASFY – $13.71) posted a loss per share of $0.27, versus the estimated $0.20 of earnings, in fiscal Q2 2020. BASFY had sales of $14.0 billion (vs. $14.3 billion est.). Since the release, shares have fallen more than 9%, reflective of BASF’s struggles in this challenging COVID-19-impacted environment. BASF reported that global chemical production deteriorated to the tune of 4% over the past few months, an effect especially pronounced in Europe and North America. China’s V-shaped recovery has helped boost demand, but uncertainty remains about subsequent relapses.

CEO Martin Brudermuller said, “For the third quarter of 2020, we currently do not expect EBIT before special items to improve significantly compared with the second quarter of 2020, in part due to the generally lower demand in August and the seasonality of the Agricultural Solutions business. Our own recovery path from the corona pandemic is still as unclear as the medium and long-term macroeconomic development globally and by region. The risk of further infection waves with the corresponding impact from further lockdowns as well as subdued customer demand in the midterm are the main reasons for that.”

Hard to blame management for the dreary outlook considering the challenges facing the company. We first recommended BASFY in late 2018, after the company had a difficult year thanks to sharp declines in chemical pricing and a trade spat between the U.S. and China. In 2019, low water levels in the Rhine made shipments of raw materials difficult or impossible, while the pandemic in 2020 brought large-scale manufacturing to a halt in many industries. No doubt, the recent past does not paint a nice picture, but shares remain about 60% below the early-2018 peak and BASF's fundamentals remain reasonable in 2021 and 2022. In exchange for patience and some macroeconomic risk, shareholders are offered a net yield near 5% and a reasonable valuation compared to the company's peers. That said, our Target Price has been cut to $21.

Caterpillar (CAT – $132.88) saw its shares drop nearly 3% Friday, even as the construction equipment manufacturer reported Q2 financials before market open that included a massive bottom-line beat (EPS of $1.03 vs $0.65). Revenue was 31% lower year-over-year as dealers reduced their inventory at nearly 3 times the rate in Q2 2019, but we were impressed with the 7.8% operating margin given the current environment. Management did not offer guidance, but did state that the company expects to suspend share repurchases for the remainder of the year. The Street now expects earnings of $5.05 for the full year 2020 and $7.19 in 2021, with $8.92 the early estimate for 2022.

CEO Jim Umpleby commented, "Our workforce is successfully navigating this uncertain environment by focusing on keeping period costs down, managing inefficiencies and continuing to meet customer needs. The execution of our strategy, including the disciplined management of structural costs during the last 3 years, is also helping us weather the storm created by COVID-19. We've reduced discretionary expenses, including consulting, travel and entertainment. Effective July 1, to support our employees, we reinstated 2020 base salary increases, except for our most senior executives. Short-term incentive compensation plans for 2020 will remain suspended for most salaried management employees and all senior executives."

He continued, "We've also reduced production to match customer demand. Our teams continued to focus on improving operational excellence, which includes making our cost structure more flexible and competitive. We worked through a number of operational challenges relating to the pandemic. As of mid-July, substantially all our primary production facilities across our 3 main segments continue to operate, although many are operating at reduced capacity. We've worked to mitigate disruption to our supply chain by using alternative sources, redirecting orders to other distribution centers and prioritizing the distribution of the most impactful parts. Our global supply chain is in relatively good shape, although the situation remains fluid. We'll continue to work through the challenges. The challenges we've successfully navigated have only strengthened our resolve that we're pursuing the right strategy. That's why even in this environment, we're investing in expanded offerings and services, all of which are key elements of our strategy. We have a strong balance sheet and ample liquidity. We're ready for changes in market conditions, either positive or negative. We fully intend to emerge from this crisis an even stronger company, better positioned for long-term profitable growth."

CAT continues to have a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. While operational hurdles remain

and aren't likely to disappear tomorrow, we point out that Caterpillar is conservatively financed, with enough liquidity currently available to meet contractual obligations for the remainder of 2020 and beyond. And, while the current economic outlook remains uncertain, we take comfort that CAT was profitable even throughout the Great Financial Crisis. We also think there is potential for increased global infrastructure spending and that it could be an election year topic. A shift toward leaner operations should make the company more defensible throughout changing environments, enabling it to persist in returning capital through share buybacks and dividend increases throughout the business cycle. Shares yield an attractive 3.1%, while the company continues to deliver strong operating cash flow. Nevertheless, our Target Price for CAT has been reduced to $168.

Toy and entertainment concern **Hasbro** (HAS – $72.76) released Q2 2020 financial results that were widely below analyst expectations ($0.02 vs. $0.20 est.). Shares dropped nearly 9% from the previous Friday close in early trading Monday in reaction to the news, but bounced back a bit to end the week down 6.2%. Management attributes temporary store closures and supply chain disruption to the rough quarter, despite strong demand for the firm's products. Hasbro's gaming segment was the lone bright spot in the period, growing revenue 11% versus the prior year quarter, while revenue from the other segments declined by nearly 30% or more. Live action production in the TV and Film space was shutdown, deferring the completion and delivery of productions further into 2020 and 2021. That said, the acquisition of eOne apparently remains on track to deliver $130 million in synergies by the end of 2022.

CEO Brian Goldner commented, "Looking at demand, consumers continue to seek out Hasbro brands and our content at high levels. Global point-of-sale increased in the high single digits and has continued to be strong as we entered the third quarter across an even broader array of our brands. Engagement in our content is, in several cases, at record levels. In recent months, the number of retail stores open has increased dramatically. We began the second quarter with approximately 30% or more of stores, where we are doing business closed globally. Foot traffic was down in certain European countries by as much as 50% at the peak. Today, we are below 10% of retail closed globally, with the greatest impact in Latin America, where approximately 25% of stores remain closed. These percentages are changing based on the ability to reopen economies and keep them open. We expect Latin America will be a difficult region for us in 2020, given the impact of COVID-19 and the small percentage of business executed online."

He continued, "I believe we have strengthened Hasbro this year by rethinking how we've done things in the past and we've changed our approach going forward. We've remained invested in areas of high consumer consumption and interest in innovation, content, digital gaming and consumer products. We've strengthened our path to the consumer, leveraging our digital-first multichannel strategy and our global retail footprint. We've increased our agility and speed to market, adapting Hasbro plans as initiatives shifted to next year, and we are set to execute and deliver a strong 2021 across a robust lineup of entertainment and innovation with entertainment from eOne and our partners, new gaming launches in digital and tabletop and new play initiatives across our brands."

The company appears to have sorted through the crux of its supply chain issues, as Chinese factories (55% of production) resumed operation early in Q2 and the remaining footprint is expected to catch up toward the end of the current quarter. While the retail environment remains in flux, we expect stay-at-home orders and the desire for entertainment to bolster demand for the firm's products. We like that Hasbro continues to invest in its competitive position. And, while debt remains a bit elevated ($5.4 billion at the end of the most recent quarter), over $1 billion of cash is on the balance sheet, with a $1.5 billion revolving credit facility also available to weather more near-term difficulties. Shares trade at 17 and 14 times 2021 and 2022 earnings estimates, respectively, and yield an attractive 3.7%. Our Target Price for HAS is now $109.

Shares of **Goodyear Tire** (GT – $9.01) plunged more than 7% last Friday after the company released Q2 2020 results. The tire maker's loss of $1.87 per share was less than the $2.24 in red ink expected. while sales were $2.14 billion, compared with $3.6 billion a year ago, but better than the $1.81 billion expected. Unit volume fell 45% as automobile production was virtually nonexistent in the quarter and consumers shut in their homes around the globe and off the road impacted replacement needs.

GT CEO Richard Kramer commented, "While our markets during the quarter were severely impacted by the pandemic, our exit run rates were well off our April lows and trending in the

right direction as economies reopened and commerce increased. Now as demand in our major markets around the world began to recover, we responded by executing a phased restart of our production to ensure that we had enough of the right tires to serve our customers as they resumed operations with our manufacturing plan focused on flexibility and agility. As you would expect, we have an intense focus on cost as well as the quality and levels of our inventory and customer service as we look to the back half of the year. Now it's said that the key to success is constancy of purpose. While operational flexibility is the key to managing through this difficult period, we have remained steadfast to the principles of both our strategy road map and our connected business model. Make no mistake, our focus is not on getting through the pandemic but how we will emerge stronger. We will win with our customers and consumers, manage our costs and build our capabilities to win in the future."

He continued, "As we think about the quarters ahead, the uncertainty around the trajectory of the macroeconomic environment is significant. In light of these realities, we are maintaining a realistic perspective as we plan for the second half of the year. While we're unable to predict how the next few quarters will play out, we can take steps that will position us to win irrespective of market conditions. We remain committed to winning with customers and consumers in our markets today, while advancing our strategic initiatives to strengthen our leadership position and secure our long-term growth prospects. We're investing to support the robust growth we're seeing in e-commerce and mobile installation business. These investments will allow us to expand our mobile installation capabilities into new markets by the end of the year and lay the groundwork for further expansion in 2021. At the same time, our OE teams are focused on winning the best fitments to position us to drive profitable growth in the coming years. And we continue to focus on improving our manufacturing costs while adding flexibility to support our customers and do so at lower levels of inventory. This is crucial to how we're going to successfully adapt our business for the current market conditions."

Like many industrial businesses, particularly those in the automotive space, the pandemic has dealt Goodyear an extraordinarily difficult hand. We had thought for a few quarters that we were close to the bottom of the business cycle for GT, given the challenges of preceding years, but the coronavirus added a whole new dynamic that GT didn't need. That said, management efforts to preserve cash are notable, while conditions ought to improve somewhat in coming quarters as auto manufacturing gradually resumes. Elevated debt levels add to the risk of our GT position, but we note that all of the firm's publicly traded bonds trade at or above par despite their "junk" rating. For the time being, we are OK holding our GT shares as our Target Price stands at $16.

Shares of **Celanese** (CE – $97.20) rose 5% last week after the specialty chemicals manufacturer reported Q2 financial results that handily beat expectations on both the top- and bottom-lines. Celanese announced adjusted EPS of $1.30 (versus $1.05 est.), while revenue was $1.2 billion (versus $1.1 billion). Sales in all three segments (Engineered Materials, Acetate Tow and Acetyl Chain) declined in the period. Declines in auto sales across the Americas and Europe by 67% and 54%, respectively, and softer-than-expected medical sales due to a reduction in elective procedures contributed to a 75% decline in operating earnings in the Engineered Materials segmen, compared to the previous quarter. Weak acetic acid prices drove Acetyl Chain to lower operating results, although there was improvement versus a similar period of soft prices in 2016. Management expects these conditions to persist. Celanese also recently announced the sale of a

Polyplastics joint venture for $1.6 billion, with $500 million of the proceeds slotted for share repurchases.

The firm has planned to utilize the period of reduced demand in 2020 to optimize its production facilities in Europe in order to begin realizing cost savings in 2021 while meeting regional demand needs. It also is making progress with supply chain improvement initiatives, implementing new technology and processes from customer order to delivery. Management expects these improvements to be substantially complete by the end of this year.

CEO Lori Ryerkerk summarized the quarter, "I am inspired by the collective strength of our employees to navigate increasingly challenging conditions over the last year. As a result, not only is Celanese as strong financially as it has ever been, but we are as active as ever in building our business models, delivering productivity, and allocating our capital to projects that will drive future growth. While challenges will persist for the remainder of 2020, our capacity as an organization to take purposeful actions to perform in any environment is as strong as ever. Our culture and people continue to thrive and we possess the greatest financial optionality in our history. With these strengths, we are exceptionally well-positioned and collectively committed to driving differentiated growth and shareholder value in the future."

Despite continued operational headwinds, we are very constructive on management's efforts to pursue higher returns on capital and strengthen the firm's operating position for end-market-demand recovery. CE enjoys a cost advantage in many of its markets and we see the Advanced Engineered Materials business having attractive long-term growth potential. Free-cash-flow generation has proven quite resilient. which allows the company to continually strengthen its financial base, while returning capital to shareholders. Despite a 64% run since the March lows, shares currently trade at only 12.7 times NTM adjusted EPS expectations, while the dividend yield is 2.6%. Our Target Price has been boosted to $141.