Market Commentary Monday, August 24, 2020

August 23, 2020

EXECUTIVE SUMMARY

Market of Stocks – Some Indexes at Highs but Most Stocks in the Red Last Week and in 2020
Interest Rates – Very Supportive of Equities
Valuations – Our Portfolios vs. the Indexes
History Lesson – Rising and Falling Tide does not Raise/Lower All Boats Equally
COVID-19 – Mortality Rate Fell in the Latest Week
Econ News – Latest Stats were Mixed
FOMC Minutes – Fed Likely to Remain Friendly for a Long Time
Q2 Earnings – 84% of the S&P 500 Beat the Street
Stock News – Updates on WMT, TGT, KSS, DE, SFL, LOW & FL

Market Review

While the capitalization-based S&P 500 and Russell 3000 indexes closed at record highs on Friday, the week just ended was a microcosm of what has been seen for much of the year. Indeed, a handful of hot technology stocks have been powering the indexes, even as the vast majority of stocks have lost value.

MARKET OF STOCKS – FAR MORE LOSERS THAN WINNERS IN 2020

While the financial papers last week trumpeted record highs for the supposedly broad-based S&P 500 and Russell 3000 indexes, those capitalization-weighted benchmarks have been bolstered by a handful of stocks. In fact, for the latest week and for 2020, the top five contributors accounted for all the R3K gains and then some, while the number of decliners for both periods dwarfed the advancers.

Russell 3000 Index Last Week

8.14.20 to 8.21.20 Performance Data

Company	Weight (%)	Contribution to Return (%)	Total Return (%)	2021 Forward P/E Ratio
Winners				
888 Advancers	**55.00**	**2.12**		
Apple	5.68	0.47	8.2	30.7
Tesla	0.82	0.18	24.2	136.2
Amazon.com	4.12	0.17	4.3	55.3
Microsoft	4.74	0.10	2.2	31.2
Nvidia	0.86	0.08	9.7	46.8
Top 5 Total	**16.22**	**1.00**		
Losers				
2100 Decliners	**45.00**	**-1.39**		
Biomarin Pharmaceutical	0.05	-0.02	-36.5	37.9
UnitedHealth Group	0.90	-0.03	-3.0	17.0
Exxon Mobil	0.54	-0.03	-5.1	26.8
Bank of America	0.60	-0.03	-5.6	11.7
JPMorgan Chase	0.90	-0.05	-5.0	11.1
Bottom 5 Total	**2.99**	**-0.16**		
Russell 3000 Index TR			**0.73**	
Russell 3000 Index Average Stock TR			**-2.14**	

Source: Kovitz using data from Bloomberg

Russell 3000 Index Year-to-Date

12.31.19 to 8.21.20 Performance Data

Company	Weight (%)	Contribution to Return (%)	Total Return (%)	2021 Forward P/E Ratio
Winners				
1106 Advancers	**59.33**	**17.82**		
Apple	4.58	2.69	70.6	30.7
Amazon.com	3.34	2.16	77.8	55.3
Microsoft	4.58	1.55	36.1	31.2
Tesla	0.43	0.78	390.0	136.2
Nvidia	0.62	0.56	115.8	46.8
Top 5 Total	**13.55**	**7.73**		
Losers				
2114 Decliners	**40.67**	**-11.67**		
Bank of America	0.71	-0.28	-28.1	11.7
Boeing	0.36	-0.30	-48.3	38.6
Exxon Mobil	0.69	-0.36	-38.0	26.8
Wells Fargo	0.42	-0.39	-54.5	11.3
JPMorgan Chase	1.10	-0.43	-28.3	11.1
Bottom 5 Total	**3.28**	**-1.76**		
Russell 3000 Index TR			**6.14**	
Russell 3000 Index Average Stock TR			**-4.15**	

Source: Kovitz using data from Bloomberg

We can’t complain too much, given that many stocks are not that far from breakeven in a year that has witnessed the worst health crisis in a century and the biggest economic decline since the Great Depression. Indeed, the speed of the massive rebound off of the March 23 lows has surprised nearly everyone, but for the five trading days just ended, the S&P 500 and Russell 3000 each gained more than 0.7%, while the S&P 500 Equal Weight and the Russell 3000 Value indexes each declined by more than 1.5%, and the S&P 500 Pure Value index skidded 4.0%.

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MARKET OF STOCKS – MASSIVE DISPERSION OF RETURNS IN 2020

We respect that the S&P 500 and Russell 3000 indexes hit all-time highs last week, but the average stock is down on the year and many a Value name continues to reside deep in the red in 2020, suggesting to us that far more opportunities lie in the inexpensive areas of the market.

2020 Market of Stocks - YTD Total Return as of 8.21.20

Start	End	Perf	Instrument	Start	End	Perf	Instrument
12/31/2019	8/21/2020	-4.15%	Russell 3000 Average Stock	12/31/2019	8/21/2020	-4.24%	S&P 500 Equal Weighted Index
12/31/2019	8/21/2020	-0.59%	Dow Jones Industrial Average	12/31/2019	8/21/2020	12.81%	S&P 500 Pure Growth Index
12/31/2019	8/21/2020	26.93%	NASDAQ Composite Index	12/31/2019	8/21/2020	-26.40%	S&P 500 Pure Value Index
12/31/2019	8/21/2020	6.99%	Russell 1000 Index	12/31/2019	8/21/2020	11.25%	S&P 500 Communication Services
12/31/2019	8/21/2020	-6.14%	Russell 2000 Index	12/31/2019	8/21/2020	23.90%	S&P 500 Consumer Discretionary
12/31/2019	8/21/2020	6.14%	Russell 3000 Index	12/31/2019	8/21/2020	3.54%	S&P 500 Consumer Staples Secto
12/31/2019	8/21/2020	6.46%	S&P 500 Index	12/31/2019	8/21/2020	-38.61%	S&P 500 Energy Sector GICS Lev
12/31/2019	8/21/2020	24.96%	Russell 1000 Growth Index	12/31/2019	8/21/2020	-19.88%	S&P 500 Financials Sector GICS
12/31/2019	8/21/2020	-11.02%	Russell 1000 Value Index	12/31/2019	8/21/2020	5.82%	S&P 500 Health Care Sector GIC
12/31/2019	8/21/2020	5.67%	Russell 2000 Growth Index	12/31/2019	8/21/2020	-5.05%	S&P 500 Industrials Sector GIC
12/31/2019	8/21/2020	-18.41%	Russell 2000 Value Index	12/31/2019	8/21/2020	29.66%	S&P 500 Information Technology
12/31/2019	8/21/2020	23.71%	Russell 3000 Growth Index	12/31/2019	8/21/2020	2.18%	S&P 500 Materials Sector GICS
12/31/2019	8/21/2020	-11.52%	Russell 3000 Value Index	12/31/2019	8/21/2020	-5.83%	S&P 500 Real Estate Sector GIC
12/31/2019	8/21/2020	21.69%	S&P 500 Growth Index	12/31/2019	8/21/2020	-6.51%	S&P 500 Utilities Sector GICS
12/31/2019	8/21/2020	-10.80%	S&P 500 Value Index	12/31/2019	8/21/2020	-8.42%	Berkshire Hathaway Inc

Source: Bloomberg

No doubt, it is a market of stocks and not simply a stock market as the rising tide over the last five months has not lifted all boats equally, which should provide comfort to those concerned about the supposedly rich valuation of the "market." True, we respect that the current P/E ratio for the S&P 500 of 26.4 is on the high end of the historical range, but we can't forget that interest rates are microscopic today,…

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INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.78% vs. 0.63% 10-Year) and generous S&P 500 dividend yield of 1.77%.

…and that there is a big difference in how one should look at equity prices when yields on cash are close to zero as they are today, versus 500 (5.0%) or 600 (6.0%) basis points as they were when the S&P 500 was arguably expensively valued back in 2000 and 2007.

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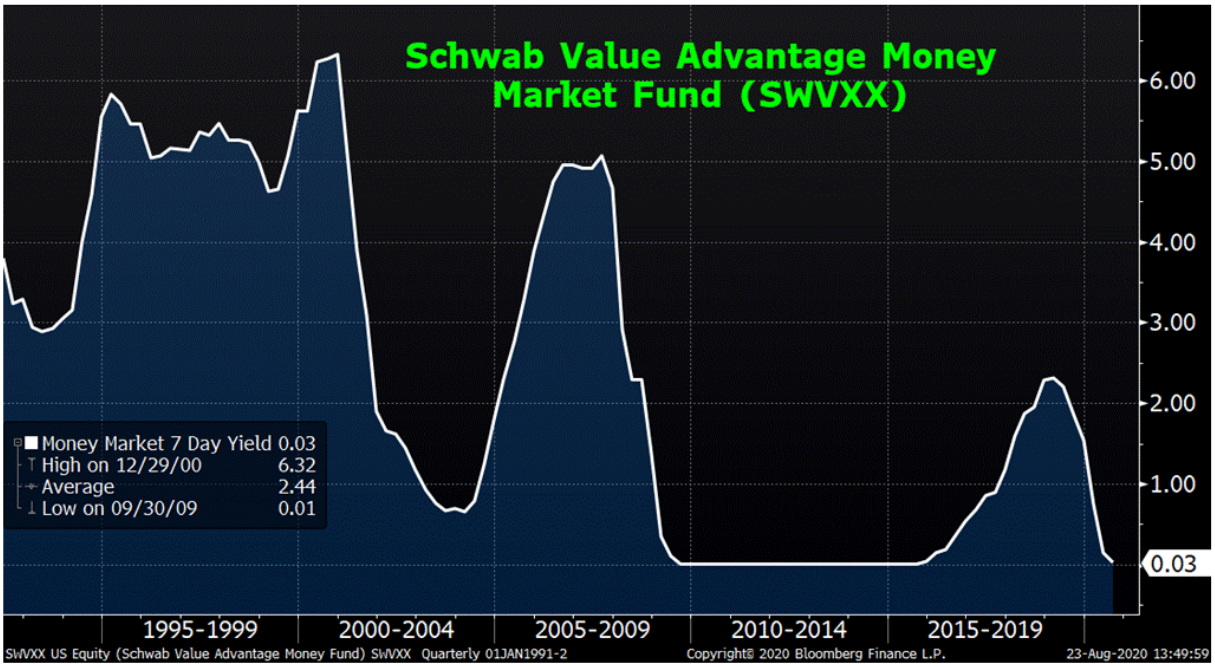
MONEY MARKET FUND YIELDS OVER TIME

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.03% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2000 and 2007.



Of course, our portfolios are attractively priced, with generous dividend yields,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.2	14.6	1.1	1.9	2.7
ValuePlus	18.7	15.7	1.1	1.9	2.4
Dividend Income	17.3	15.3	1.0	2.1	3.0
Focused Dividend Income	17.2	15.2	1.0	2.2	2.9
Focused ValuePlus	18.2	16.3	1.4	2.2	2.5
Small-Mid Dividend Value	14.9	14.7	0.5	1.3	2.8
Russell 3000	29.7	28.6	2.3	3.6	1.7
Russell 3000 Growth	43.8	36.7	4.4	11.0	0.8
Russell 3000 Value	21.9	22.9	1.5	2.0	2.6
Russell 1000	28.0	27.4	2.5	3.8	1.7
Russell 1000 Growth	40.2	34.8	4.7	11.8	0.8
Russell 1000 Value	21.0	22.2	1.6	2.1	2.6
S&P 500 Index	26.5	26.1	2.5	3.8	1.8
S&P 500 Growth Index	34.4	31.9	4.8	8.1	1.0
S&P 500 Value Index	19.5	20.4	1.4	2.1	2.9
S&P 500 Pure Value Index	16.4	23.1	0.5	0.9	3.4

As of 08.22.20. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…while history shows that when stocks trading in nosebleed territory come back to earth, the ebbing “market” tide might actually boost some boats,…

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MARKET OF STOCKS – TECH BUBBLE BURSTING IN 2000 BOLSTERED VALUE

We respect that many investors are nervous about rich valuations for a handful of high-flying technology-related companies, but market history shows that the Tech Wreck in 2000 in which the Nasdaq Composite index plunged 39.2% was good news for Value stocks.

2000 Market of Stocks - Total Return

Start	End	Perf	Instrument	Start	End	Perf	Instrument
12/31/2019	12/31/2000	-2.82%	Russell 3000 Average Stock	12/31/2019	12/31/2000	7.63%	S&P 500 Equal Weighted Index
12/31/1999	12/31/2000	-4.71%	Dow Jones Industrial Average	12/31/1999	12/31/2000	-8.47%	S&P 500 Pure Growth Index
12/31/1999	12/31/2000	-39.18%	NASDAQ Composite Index	12/31/1999	12/31/2000	9.30%	S&P 500 Pure Value Index
12/31/1999	12/31/2000	-7.63%	Russell 1000 Index	12/31/1999	12/31/2000	-38.76%	S&P 500 Communication Services
12/31/1999	12/31/2000	-3.08%	Russell 2000 Index	12/31/1999	12/31/2000	-20.00%	S&P 500 Consumer Discretionary
12/31/1999	12/31/2000	-7.31%	Russell 3000 Index	12/31/1999	12/31/2000	16.95%	S&P 500 Consumer Staples Secto
12/31/1999	12/31/2000	-9.10%	S&P 500 Index	12/31/1999	12/31/2000	15.66%	S&P 500 Energy Sector GICS Lev
12/31/1999	12/31/2000	-22.43%	Russell 1000 Growth Index	12/31/1999	12/31/2000	25.71%	S&P 500 Financials Sector GICS
12/31/1999	12/31/2000	7.41%	Russell 1000 Value Index	12/31/1999	12/31/2000	37.06%	S&P 500 Health Care Sector GIC
12/31/1999	12/31/2000	-22.45%	Russell 2000 Growth Index	12/31/1999	12/31/2000	5.88%	S&P 500 Industrials Sector GIC
12/31/1999	12/31/2000	22.68%	Russell 2000 Value Index	12/31/1999	12/31/2000	-40.90%	S&P 500 Information Technology
12/31/1999	12/31/2000	-22.42%	Russell 3000 Growth Index	12/31/1999	12/31/2000	-15.73%	S&P 500 Materials Sector GICS
12/31/1999	12/31/2000	8.41%	Russell 3000 Value Index	12/31/1999	12/31/2000	NA	S&P 500 Real Estate Sector GIC
12/31/1999	12/31/2000	-22.08%	S&P 500 Growth Index	12/31/1999	12/31/2000	57.24%	S&P 500 Utilities Sector GICS
12/31/1999	12/31/2000	6.07%	S&P 500 Value Index	12/31/1999	12/31/2000	28.63%	Berkshire Hathaway Inc

Source: Bloomberg

…even if the carnage lasts for a couple of years.

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MARKET OF STOCKS – 2001 TECH BEAR FUELED GAINS IN OTHER STOCKS

No doubt, it is frustrating to see inexpensive stocks these days lag far behind high-flying mega-caps, but markets have witnessed this movie before, with a continuation of the collapse of the Tech Bubble in 2001 actually seeing the average Russell 3000 member rally more than 6%.

2001 Market of Stocks - Total Return

Start	End	Perf	Instrument	Start	End	Perf	Instrument
12/31/2000	12/31/2001	6.13%	Russell 3000 Average Stock	12/31/2000	12/31/2001	-1.85%	S&P 500 Equal Weighted Index
12/31/2000	12/31/2001	-5.44%	Dow Jones Industrial Average	12/31/2000	12/31/2001	-17.92%	S&P 500 Pure Growth Index
12/31/2000	12/31/2001	-20.81%	NASDAQ Composite Index	12/31/2000	12/31/2001	8.07%	S&P 500 Pure Value Index
12/31/2000	12/31/2001	-12.45%	Russell 1000 Index	12/31/2000	12/31/2001	-12.24%	S&P 500 Communication Services
12/31/2000	12/31/2001	2.49%	Russell 2000 Index	12/31/2000	12/31/2001	2.78%	S&P 500 Consumer Discretionary
12/31/2000	12/31/2001	-11.46%	Russell 3000 Index	12/31/2000	12/31/2001	-6.42%	S&P 500 Consumer Staples Secto
12/31/2000	12/31/2001	-11.89%	S&P 500 Index	12/31/2000	12/31/2001	-10.45%	S&P 500 Energy Sector GICS Lev
12/31/2000	12/31/2001	-20.42%	Russell 1000 Growth Index	12/31/2000	12/31/2001	-8.94%	S&P 500 Financials Sector GICS
12/31/2000	12/31/2001	-5.60%	Russell 1000 Value Index	12/31/2000	12/31/2001	-11.96%	S&P 500 Health Care Sector GIC
12/31/2000	12/31/2001	-9.24%	Russell 2000 Growth Index	12/31/2000	12/31/2001	-5.74%	S&P 500 Industrials Sector GIC
12/31/2000	12/31/2001	14.05%	Russell 2000 Value Index	12/31/2000	12/31/2001	-25.87%	S&P 500 Information Technology
12/31/2000	12/31/2001	-19.63%	Russell 3000 Growth Index	12/31/2000	12/31/2001	3.40%	S&P 500 Materials Sector GICS
12/31/2000	12/31/2001	-4.34%	Russell 3000 Value Index	12/31/2000	12/31/2001	NA	S&P 500 Real Estate Sector GIC
12/31/2000	12/31/2001	-12.74%	S&P 500 Growth Index	12/31/2000	12/31/2001	-30.40%	S&P 500 Utilities Sector GICS
12/31/2000	12/31/2001	-11.72%	S&P 500 Value Index	12/31/2000	12/31/2001	7.26%	Berkshire Hathaway Inc

Source: Bloomberg

After all, consider that the market capitalization of $2.13 trillion today for **Apple** (AAPL – $497.48) is equal to the combined capitalization of the smallest 2,119 stocks in the Russell 3000 index. Even more amazing, the combined weight of Apple, **Microsoft** (MSFT – $213.02) and Amazon.com equals 15.0% of the Russell 3000, the same market capitalization as the smallest 2,568 stocks in the index.

We do still own positions in Apple and Microsoft, but we have trimmed our holdings on several occasions and the weightings in our broadly diversified portfolios are well below those of the Russell 3000 and S&P 500. We aren't rooting against those two, and, obviously, we are happy that we have owned them for many years, but investors fell out of love with technology superstars back in 2000, with Value stocks the huge beneficiary.

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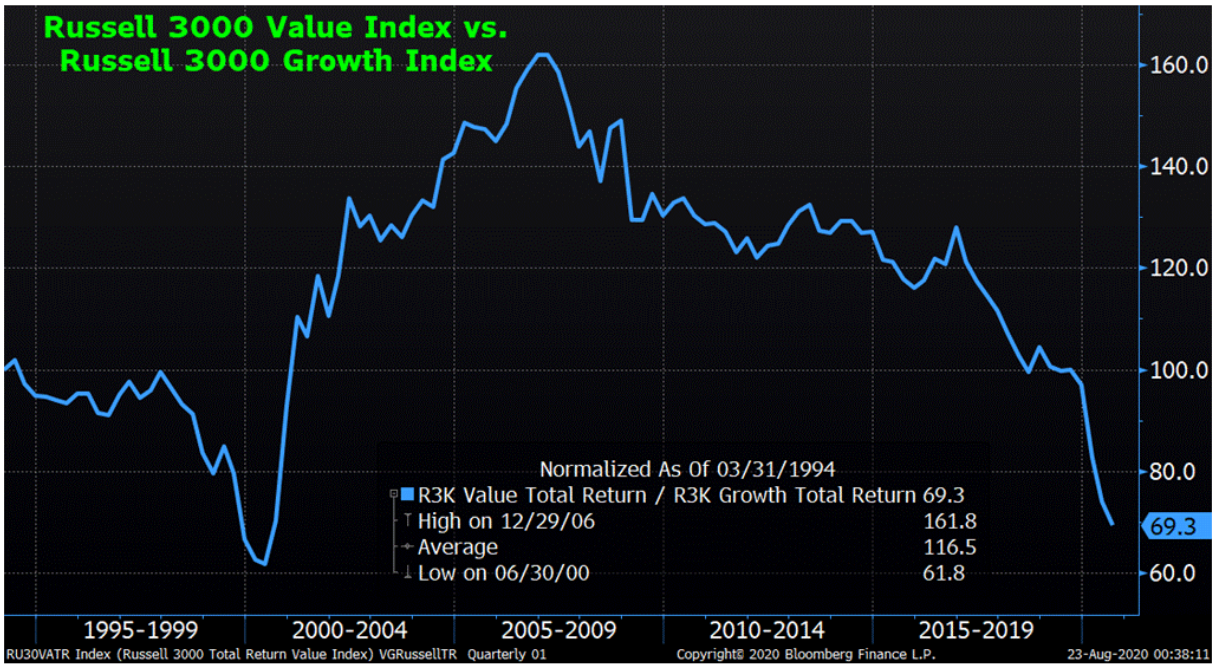
R3K VALUE "BUY" SIGNAL ON PAR WITH THE TOP OF THE TECH BUBBLE

Stocks with inexpensive financial metrics have lagged badly in the wake of COVID-19, but the R3K Value index relative to the R3K Growth index on a total return basis is now near 2000 levels.



We continue to believe that Value will recapture its former glory, hence our willingness to part with some more of our Apple on Friday,…

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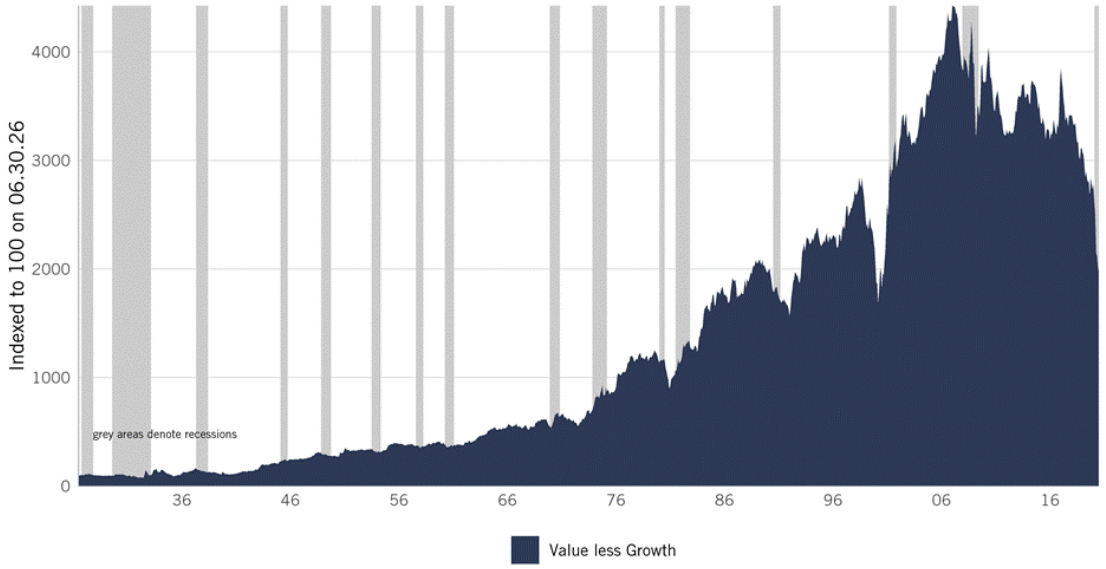
FAMA/FRENCH CUMULATIVE VALUE VERSUS GROWTH

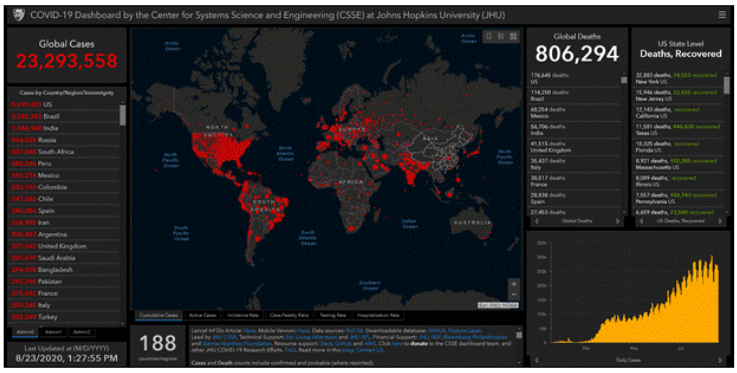
Certainly, we respect that we live in a what-have-you-done-for-me-lately world, but Value has crushed Growth over the long haul, with the best time to buy inexpensive stocks through the years being after periods of lagging performance.

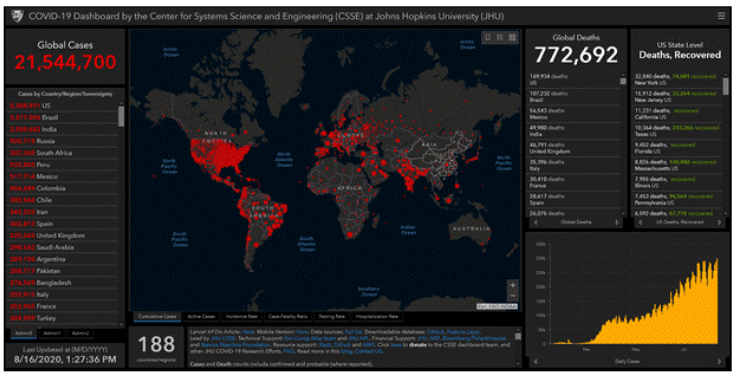


From 06.30.26 through 06.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…with better and/or less worse news on the health front,…

COVID-19 GLOBAL SPREAD





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

With access to testing remaining high, there was another jump of nearly 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 176,000 fatalities. While deaths obviously lag cases, there would seem to have been better news on the global mortality rate in the latest week as the increase in fatalities totaled "only" 4.3%, down from jumps of 6.1%, 6.1% and 6.2%, respectively, for the three weeks prior.

…and more confidence in the resiliency of the U.S. economy the likely catalysts.

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

Of course, the latest batch of economic statistics were mixed, with still positive, but worse-than-expected, readings on the health of the factory sector,…

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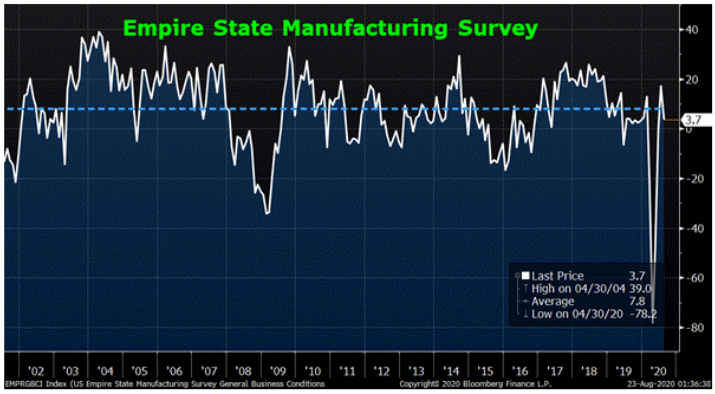
FACTORY OUTLOOK RETREATS IN AUGUST



The Empire State gauge of manufacturing activity in the New York area pulled back sharply, falling to a weaker-than-expected reading of 3.7 for August, more than 4 points below the average for this business conditions index. The Philadelphia Fed's August measure of manufacturing activity in the mid-Atlantic region came in at 17.2, less than projected though well above the average for the index. Both numbers still indicate improving factory conditions, however.

…arguably offset by surprisingly robust data on housing.

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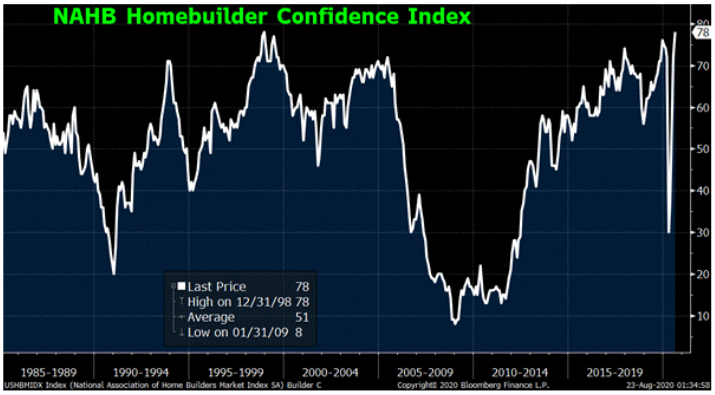
RECORD HIGH HOUSING NUMBERS



The National Association of Home Builders' monthly confidence index jumped six points in August, matching the record high of 78 set back in 1998. No doubt, record low interest rates are bolstering the housing market, as sales of existing homes soared by 25% in July to a seasonally adjusted annual rate of 5.86 million units. The tally was the strongest monthly advance ever recorded and was the highest sales pace since December 2006.

True, a tremendous number of folks remain out of work,…

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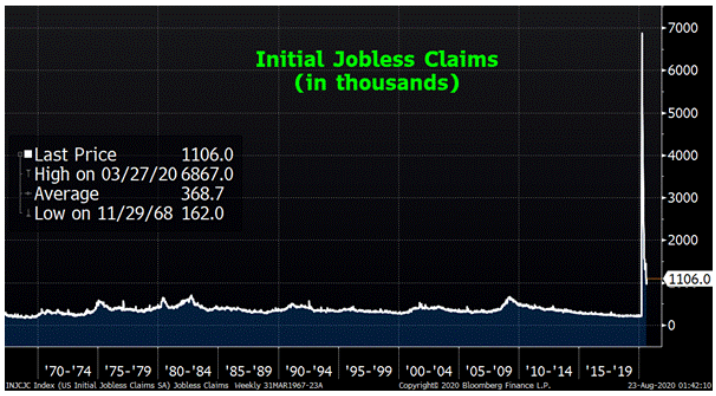
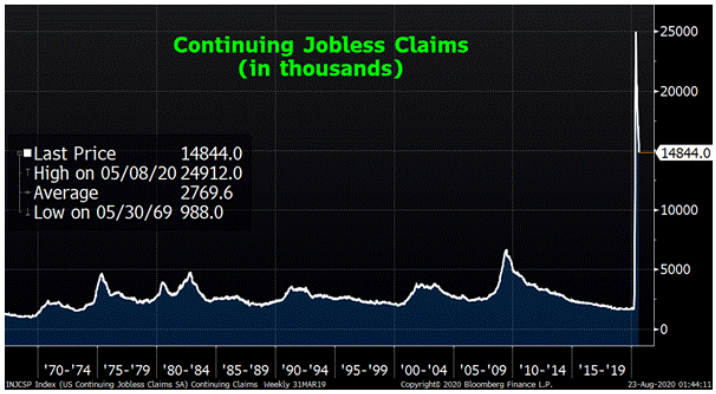
NOT-SO-GREAT LABOR STATISTICS





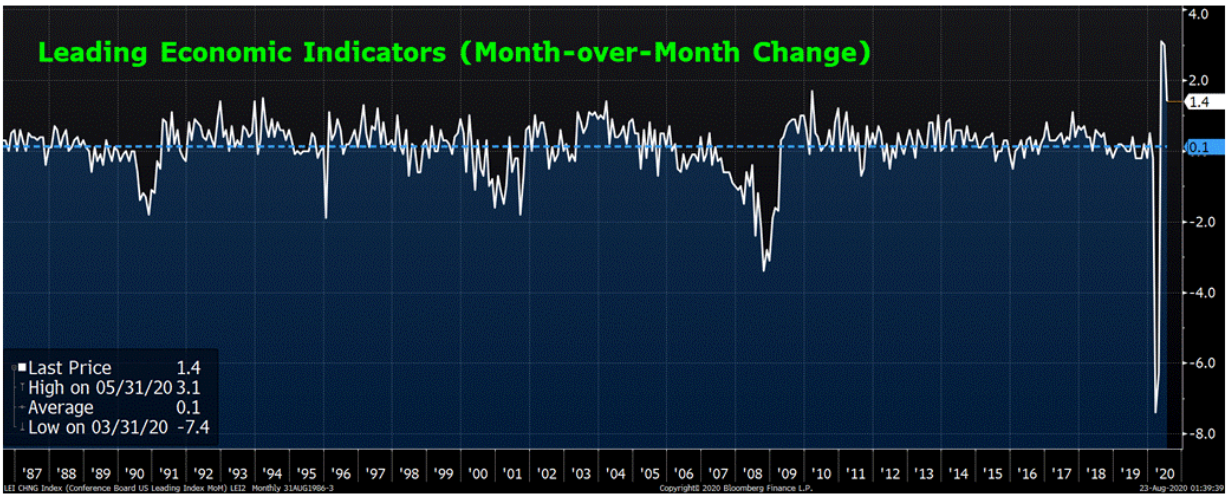
The latest figures on first-time claims for jobless benefits saw a surprisingly large bounce up to 1.11 million from 971,000 the week prior, though "noise" from the end of the $600 Federal unemployment payout may be coloring the numbers. The sum of those still receiving unemployment assistance remained very elevated at 14.8 million in the latest reading, but that tally was down 0.7 million from the week prior.

…but there most certainly will be a significant economic rebound this quarter,…

THE PRUDENT SPECULATOR

LEI STILL WELL INTO POSITIVE TERRITORY…FOR THE TIME BEING

The forward-looking Leading Economic Index rose by 1.4% on a month-over-month basis in July, down from a 2.0% advance in June. The average gain in the LEI back to 1986 has been just 0.1%, but the Conference Board stated, "Despite the recent gains in the LEI, which remain fairly broad-based, the initial post-pandemic recovery appears to be losing steam. The LEI suggests that the pace of economic growth will weaken substantially during the final months of 2020."



…even as we respect that many are thinking that the recovery in the next few quarters will be "W" shaped and not "V" shaped, and the Federal Reserve has been very cautious in its comments on the economic prognosis.

FOMC MINUTES: JULY 28-29, 2020

Staff Economic Outlook

In the U.S. economic projection prepared by the staff for the July FOMC meeting, the estimated level of real GDP in the second quarter was marked up compared with the June meeting forecast, reflecting the better-than-expected data through June. Nevertheless, economic activity still appeared to have declined at a historically rapid rate in the second quarter. The projected rate of recovery in real GDP, and the pace of declines in the unemployment rate, over the second half of this year were expected to be somewhat less robust than in the previous forecast. Although the staff assumed that additional fiscal stimulus measures would be enacted beyond those anticipated in the June forecast, the positive effect on the economic outlook was outweighed somewhat by the staff's assessment of the likely effects of several other factors. Those factors included the increasing spread of the coronavirus in the United States since mid-June; the reactions of many states and localities in slowing or scaling back the reopening of their economies, especially for businesses, such as restaurants and bars, providing services that entail personal interactions; and some high-frequency indicators that pointed to a deceleration in economic activity. Substantial fiscal policy measures—both enacted and anticipated—along with appreciable support from monetary policy and the Federal Reserve's liquidity and lending facilities were expected to continue bolstering the economic recovery, although a complete recovery was not expected by year-end. Inflation was projected to remain subdued this year, reflecting the substantial amount of slack in resource utilization and the sizable declines in consumer energy prices earlier this year.

The staff's baseline assumptions were that the current restrictions on social interactions and business operations, along with voluntary social distancing by individuals, would ease gradually through next year. As a result, the rate of real GDP growth was projected to exceed potential output growth, the unemployment rate was expected to decline considerably, and inflation was forecast to pick back up over 2021 and 2022.

The staff continued to observe that the uncertainty related to the economic effects of the pandemic was extremely elevated and that the unusual nature of the pandemic-related shock made assessments about how the economy might evolve in the future more challenging than usual. In light of the significant uncertainty and downside risks associated with the course of the pandemic and how long it would take the economy to recover, the staff still judged that a more pessimistic projection was no less plausible than the baseline forecast.

So, while we continue to expect the near-term to be bumpy, with equity market volatility remaining elevated, we think the Federal Reserve will remain highly accommodative as far as the eye can see. Indeed Jerome Powell & Co. appear ready to support any potential renewed economic weakness, while accepting a much greater risk of inflation before feeling a need to raise interest rates.

FED: BIG REBOUND IN '21 AND LOW INTEREST RATES

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

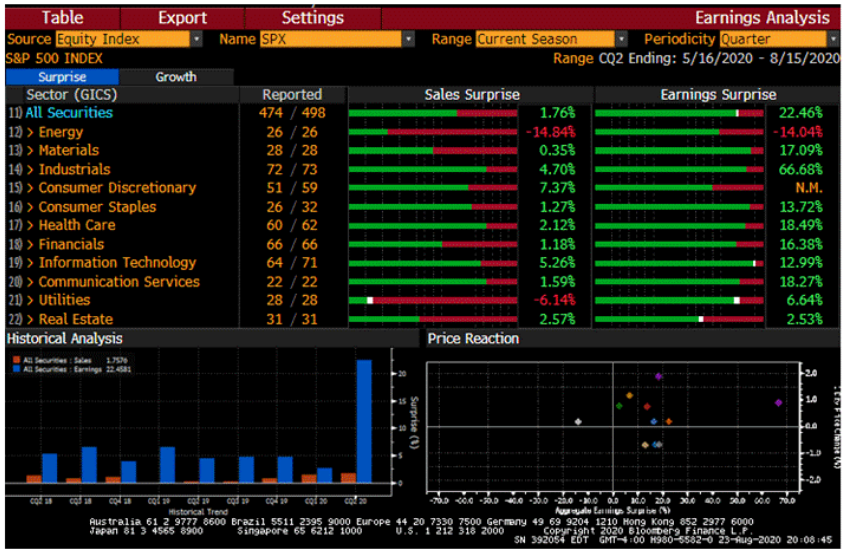
Source: Federal Reserve, June 10, 2020

With the further understanding that stock prices do not just reflect near-term prospective earnings, but also those for next year and beyond,…

THE PRUDENT SPECULATOR

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	$45.04	$163.91
9/30/2021	$42.22	$154.35
6/30/2021	$39.79	$143.99
3/31/2021	$36.86	$130.83
12/31/2020	$35.48	$113.47
9/30/2020	$31.86	$117.17
6/30/2020	$26.63	$125.12
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 8.20.20

…we believe that equities in general and Value stocks in particular remain very attractive for those who share our long-term time horizon.

Stock Updates

Second quarter earnings reporting season is now about over. The numbers have been very good relative to subdued expectations. With 474 members of the S&P 500 having announced results, per data from Bloomberg, 84.2% have topped analyst projections, much better than the usual 70% or so that beat Wall Street forecasts.

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 seven 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." A listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, and we offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Discount supermarket and superstore chain **Walmart** (WMT – $131.63) announced strong fiscal Q2 2021 results that benefited from government stimulus payments, higher ticket sizes and strong growth in general merchandise categories as consumers spent more time in their homes. The firm earned $1.56 per share, much higher than the $1.24 estimate, and sales were $137.7 billion in the period (vs. $135.6 billion est.). Despite the massive bottom-line beat, shares closed the week 2% lower, given rising uncertainty around the potential for future government stimulus. Costs also grew by an incremental $1.5 billion related to COVID-19, about 75% of which related to associate bonuses (three special bonuses have been paid in the fiscal year) and expanded benefits. Sam's Club reported strong results, as comparable sales increased 13.3% and e-commerce sales grew 39%. International net sales (20% of total sales) increased 1.6% before currency impacts, despite government-mandated closures of the company's Flipkart business in India for a portion of the quarter, as well as similar actions in markets in Africa and Central America.

CEO Douglas McMillon commented, "We're operating with a clear set of priorities to guide our decision-making through this crisis. Those priorities are: one, supporting our associates on the front lines in terms of their physical and financial well-being; two, serving our customers as safely as possible and keeping our supply chain operating; three, helping others, which includes hiring so many that need work, supporting our suppliers and marketplace sellers and serving the communities where we operate, including accelerating our efforts to increase fairness, racial equity and justice; four, managing the business well operationally and financially in the short term; and five, driving our strategy to strengthen our business for the long term."

Mr. McMillon continued, with a focus on new developments, "Even during this crisis, the team is managing our business well and executing our strategy to build omnichannel solutions globally. In the U.S., we continue to expand pickup and delivery services, including Express Delivery with customers receiving their orders in well under 2 hours. In Mexico, we've now launched same-day delivery from 70% of Sam's Clubs. And in India, we've launched Flipkart wholesale, a business-to-business solution that will leverage our omnichannel capabilities to better serve kiranas [small retail stores] and other small businesses as our cash-and-carry business joins Flipkart."

Competition is fierce within retail, but we applaud Walmart for its continual transformation to build an omnichannel presence, aided by a dense network of stores and a new Walmart+ program to compete with Amazon Prime. And while under pressure early in the pandemic, we expect investments made to grow its international footprints via Jet.com, Flipkart, JD.com and others to lengthen the retailer's runway for growth into the future. WMT generates strong free cash flow and maintains a strong financial footing, while the company remains committed to returning capital to shareholders. The dividend remains in place and the yield is 1.5%, with declared payments of $0.54 per share to be paid in September and next January. Our Target Price has been hiked to $142.

General merchandise discount store chain **Target** (TGT – $153.63) continued its rally this year, setting another new all-time high amid strong demand for the store's wares. Target reported EPS for fiscal Q2 2021 of $3.38 (vs. $1.59 est.) and revenue of $22.7 billion (vs. $19.8 billion est.). Target's in-store sales fell significantly as a result of COVID-related closures, but the drop was

offset by strong online sales, which pushed comparable sales up 24% year-over-year and double the first quarter.

"Our performance also reflects the meaningful investments we've made in recent years, building a business model that is durable enough to perform in any environment, incorporating flexibility in both our merchandise assortment and the fulfillment options we offer to our guests, while articulating a unified purpose to help all families discover the joy of everyday life," said CEO Brian Cornell, "As our guests reacted to the implications of the emerging pandemic, we encountered multiple abrupt changes in shopping patterns throughout the first quarter, both across categories and channels. Near the end of that quarter, we returned to growth in our store sales and once again saw growth in categories like apparel. This improved sense of balance in both channel and category mix continued through the second quarter, and we didn't see the dramatic swings we experienced in the first quarter."

Mr. Cornell concluded, "As we look ahead, we're prepared to navigate through a host of potential challenges, including the ongoing threat from the coronavirus and economic headwinds resulting from high levels of unemployment. Yet, as we said in our last call, we have never been more confident in our differentiated strategy and our long-term potential. Throughout this crisis, we have deepened our relationship with American consumers and introduced millions of them to our digital fulfillment services. As a result, we've seen unprecedented growth in market share, a trend that we expect to continue. With a strong business and deep financial strength, we feel well prepared to weather any near-term economic headwinds and continue to serve and delight our guests. Our team is ready and eager to seize the opportunity in front of us."

CFO Michael Fiddelke added comments on TGT's dividend, "Our priorities remain the same as they have been for decades. We first invest fully in our business in projects that meet our strategic and financial criteria. Second, we support the dividend and build on our nearly 50-year history of annual increases. And finally, we return any excess cash beyond these first 2 uses through share repurchases within the limits of our middle A credit ratings…We paid a total of $330 million in the second quarter, up from $328 million a year ago. And in June, our Board of Directors approved a 3% increase in the quarterly dividend, keeping us on track to deliver our 49th consecutive year of annual dividend increases."

While TGT's valuation metrics still aren't cheap, we continue to hold our shares due to the diversification and stability they offer to our broadly diversified portfolios. After analyst EPS revisions in the upward direction, TGT's forward price-to-earnings ratio is 21.3, which is reasonable. TGT shares yield 1.8% and our Target Price is $162.

Family-oriented department store operator **Kohl's** (KSS – $18.90) posted a second straight quarterly loss in Q2 2021, a result of widespread store closures and significant brick-and-mortar retail headwinds, especially for discretionary spending. KSS posted a loss per share of $0.25 compared to a consensus estimate of a loss of $0.70. KSS had total revenue of $3.2 billion, versus the $3.1 billion estimate. Shares fell 15% following the announcement. As was expected, store closures as a result of COVID-19 resulted in substantial difficulty in the quarter, despite the company undertaking a slew of cost cutting measures including furloughing 85,000 employees. Back in March, KSS suspended its share repurchases and dividend payment, providing an

additional $650 million of liquidity on an annualized basis, while the company has also increased the available credit on a revolver and issued new debt.

“COVID-19 continues to present a formidable health and economic challenge for the entire world. While our business has not been immune to these challenges, I am pleased with how our organization has responded and is navigating the crisis. We are executing against our short-term priorities of protecting our associates and customers and preserving the financial position of the company while also looking to the future. Our team showed great collaboration in preparing our stores with best-in-class health and safety measures and subsequently reopening all of our stores over a 10-week period. I want to express special gratitude to all of our associates that helped us kickstart our rebuilding process over the past few months. We also further strengthened our financial position during the second quarter. We achieved positive adjusted EBITDA, generated positive free cash flow and increased our cash balance to over $2.4 billion.,” explained CEO Michelle Gass.

Looking ahead, Ms. Gass commented, “We continue to effectively navigate through a period of extraordinary change and uncertainty. We made progress during the second quarter reopening our entire fleet, accelerating digital growth and generating positive free cash flow to further strengthen our financial position. While we are planning for the crisis to continue to present headwinds in the near term, we are very confident that we will not only weather the storm but also take full advantage of the opportunities that emerge from it. We are a well-disciplined operator. We have a strong foundation and we are evolving our strategies, which together, uniquely positions us to capitalize on the changing consumer behaviors and the significant disruption of the retail industry.”

KSS – IN IT FOR THE LONG RUN: CEO MICHELLE GASS

I want to first take a step back and remind you why Kohl's will be successful over the long term. We are a well-disciplined operator, leveraging our strong financial position to effectively navigate through this crisis. We have a strong foundation from which to build, solidified through years of investment in our digital and omnichannel capabilities, innovative store experiences, loyalty enhancements and new brand introductions. And we are uniquely positioned and are evolving our strategies to capitalize on changing consumer behaviors and the significant disruption of the retail industry.

So first, we are a well-disciplined operator. We transformed our store operations in a matter of weeks, reopening our entire fleet with new safety and operating procedures and training for all of our associate. This showcased our flexibility and agility in responding to new conditions and our proactive measures for associate and customer safety, that had been recognized among the best of all retailers. We also have a long history of prudent capital management and cash flow generation and we take pride in managing our business efficiently, it's part of our DNA. In the worst retail environment in our nearly 60-year history, we have delivered positive free cash flow, this is a direct reflection of our cost and cash flow, focused culture in action. We will continue to manage the business with great discipline knowing that the environment is expected to remain challenging in the near term. And we will make decisions, through the lens of our long-term objective of maintaining our investment grade rating, a status we've held for more than two decades.

Second, we have a strong foundation, which has been solidified through our investment in digital, omnichannel stores, loyalty and our brand portfolio in recent years. These efforts are paying off and continue to differentiate Kohl's. A record 65 million customers shopped us last year. They shop us, because we offer relevant categories and brands for the entire family. We provide the best value through our iconic Kohl's Cash, industry-leading loyalty and Kohl's Charge programs. And they appreciate the great experience we deliver through our easy and convenient stores and digital asset.

And third, we are uniquely positioned and are evolving our strategies to capitalize on changing consumer behaviors and significant disruption in the retail industry. We will be a beneficiary of consumers adopting more casual lifestyles and shopping more digitally. Kohl's is a known destination for casual apparel and we have a large and growing digital business, supported by our stores to our expansive omnichannel capabilities. We are also actively pursuing opportunities to capture dislocated market share from competitors and store closures. Even in the midst of the pandemic, we are acquiring new customers and see great potential looking forward. We are leveraging our past strategies and increasing our marketing investment in locations where competitors are closing stores.

It remains difficult to estimate the ongoing impact of the pandemic on retailers, but management believes that store closures for competitors like JCPenny, Steinmart and others will result in market share gains and increased sales among the department stores that are able to stick it out. We continue to believe that the long-term is positive for KSS, due in part to the company's in-store and online investments, as well as the company's strong balance sheet. While Kohl's has added to its debt recently (after chipping away at the balance consistently for years), there's plenty of cash on hand to make proactive moves, while the $500 million available on its revolver offers a quick liquidity injection if needed. At the end of the quarter, KSS had approximately $2.4 billion of cash on hand and debt of $7.7 billion, and Ms. Gass added, "We will make decisions through the lens of our long-term objective of maintaining our investment-grade rating, a status we've held for more than 2 decades." Earnings estimates are all over the map, but while analysts expect KSS to lose $2.92 per share in fiscal 2021, things are projected to improve quickly, with $1.69 in EPS in fiscal 2022 and $1.95 in fiscal 2023 the present mean analyst projection. With the shares trading near 11 times 2022 earnings and 10 times 2023 earnings, our Target Price on KSS now stands at $42.

Shares of **Deere & Co.** (DE – $199.50) climbed another 4.4% since our commentary a week ago as the agricultural, farm and construction machinery firm released its fiscal Q3 2020 financial results. Deere earned an impressive $2.57 per share versus the $1.24 estimate, on sales of $7.9

billion (vs. $6.7 billion). Cost controls taken early on in the pandemic have proven beneficial, while the firm has announced broad employee-separation programs that will be completed during the fourth quarter that are expected to save an additional $175 million per year. Management increased its net income forecast to $2.25 billion, but remains tempered in the outlook, expecting sizable sales declines in Ag & Turf (64% of sales) and Construction & Forestry (25% of sales), given economic uncertainty and a desire to reduce inventory levels.

We continue to remain quite optimistic about the long-term potential of global agriculture in general. Deere boasts a tremendous brand backed by product durability and integration with customers that offer efficient farming through real-time diagnostics. President of Ag & Turf Cory Reed detailed Deere's efforts on the technology front. "For nearly 25 years, we've been investing in core technologies that can be leveraged across the enterprise, from our early development of embedded controllers, software and telematics and guidance systems to more recent investments in computer vision, machine learning and data platforms. Today, we're better positioned than anyone to provide seamless integrated solutions where the sum of our product suite in a production system is greater than each of these machines operating in isolation. Our technology stack is also the key enabler to extract data from one step in the system in order to make the next step more effective. The value creation is powered by our core technologies and provides us the greatest opportunity for differentiated solutions in the marketplace."

He concluded, "Bringing this all together, our production systems approach, combined with the precision delivered through our technology stack, will deliver a seamless cycle that unlocks the ability to utilize resources in the most precisely targeted manner to achieve optimum output, which means delivering our customers increased productivity, greater profitability and enhanced environmental outcomes throughout the full production system."

To reiterate our comments from last week, the near term for agriculture continues to be complicated by the three Ps (pandemic, politics and production), particularly as issues around global trade and continued government support remain unresolved. However, longer term, we view the replacement cycle and precision ag as highly supportive with technology advancements continuing to support and drive pricing. Further, we think demand will continue to increase as worldwide arable land and population growth should force farmers to be more productive and should continue to drive the need for more efficient farming. We also like that Deere has the diversifier of its construction products, and think the company will benefit from continued emerging market urbanization. Our Target Price on DE is now $208.

Marine shipping concern **SFL Ltd.** (SFL – $8.87) reported Q2 earnings per share of $0.21, a decline of 23% versus the same quarter a year ago. Gross charter hire revenue was $158 million (55% from containerships), 90% of which is from long-term charters and 10% from short-term charters with spot market exposure. The firm's backlog remains $3.4 billion, with fleet contract duration ranging from five to nearly eight years varying in accordance with vessel type. Adjusted EBTDA in the quarter was roughly the same as last quarter at $121 million, with all customers still current with charter payments. SFL was relatively active in the quarter, disposing of a vessel for a net $23 million, extending charters on the existing fleet and refinancing four vessels with record low interest rates.

CEO Ole Hjertaker commented on disruptions from the pandemic, "The COVID-19 pandemic has caused massive disruptions in most transportation markets and for offshore assets. As early as January, we implemented a robust emergency management plan with a goal of ensuring the health and safety of our crew on board the vessels and onshore while maintaining our business operations as efficiently as possible. In addition to our own requirements, all crewing managers are following the guidance issued by the World Health Organization and the International Chamber of Shipping to ensure that the proper protocols are in place on board the vessels. We are hosting regular meetings with all crewing managers in all our sectors to discuss and handle any issues, in particular, challenges facing our crew and safe operations as they arise."

He continued, "While we have good and strong protocols in place on board our vessels during the normal ship and port operations, our biggest concern is with crew changes. The logistics challenges of testing and moving people across border safely without infection are enormous. And in many countries and ports, such movements are not even allowed. This means that we have had to postpone crew changes and extend the contracts of many of our seafarers over this period after the outbreak. While they have shown great understanding of the situation, there are many individuals who have suffered due to this, and we acknowledge their vital contribution in these challenging times."

The stock is down roughly 40% year-to-date, as uncertainty from the pandemic weighs on global trade. Still, we continue to appreciate the stability management has built into an otherwise highly volatile and unpredictable maritime shipping industry that has only been exacerbated due to COVID-19. The board declared its 66th consecutive quarterly dividend of $0.25 for the September payout, which was lowered back in May, and we note that close to $16 per share in dividends have been paid over the past decade. Shares sport a rich yield at 11.3% and trade for 1.0 times book value. Our Target Price for SFL is presently $13.

Shares of **Lowe's Cos** (LOW – $161.72) continued to march higher last week, pushing the year-to-date gain above 35%. The latest catalyst was the company's fiscal 2021 Q2 financial results that were very robust. For the completed period, LOW said that it realized revenue of $27.3 billion, versus the consensus analyst estimate of $24.15 billion and adjusted EPS of $3.75, almost 30% above the consensus forecast. Same-stores sales were up 34.2% in the quarter. U.S. comparable sales jumped 35.1% and online sales soared 135%. Gross margins exceeded analyst expectations, rising to 34.1%. And, the company noted that every U.S. region notched same-store sales growth of more than 30%, with that strength apparently continuing into August.

CEO Marvin R. Ellison commented, "We delivered very strong second quarter results, with all merchandising divisions posting comparable sales growth exceeding 20% and all U.S. geographic regions delivering comparable sales growth of at least 30%. Sales were driven by a consumer focus on the home, core repair and maintenance activities, and wallet share shift away from other discretionary spending. Through our retail fundamentals strategy, we have dramatically improved our technology and operational platforms, which enabled us to meet customer demand and grow our business. Looking ahead, our sales momentum continues into August, and we are investing in the business to further our omni-channel capabilities and position the company to deliver long-term value to associates, customers and shareholders."

Additionally, on Friday, Lowe's declared a quarterly cash dividend of $0.60 per share, payable November 4, 2020, to shareholders of record as of October 21, 2020. Lowe's has declared a cash dividend every quarter since going public in 1961. Mr. Ellison added, "Based on our confidence in our continued, broad-based business momentum and robust cash flow generation, we are pleased to announce a 9% increase in our dividend today. This increase reflects our commitment to delivering strong shareholder returns through our disciplined capital allocation program."

We continue to be pleased with LOW's improved execution and margin expansion, and believe it has more opportunity on which to capitalize. It is worth noting that its shares still trade at a discount to the industry gold standard Home Depot. With continued operational momentum, we wouldn't be surprised to see LOW receive more of a premium multiple as it benefits on the top and bottom line from the continued surge in domestic home sales, and the home improvement wave driven by people being forced to be at home. We have raised our Target Price to $182.

Although we wrote about **Foot Locker** (FL – $27.57) last week, as the specialty retailer had pre-announced some of its quarterly results, we received more detail on Friday. For fiscal Q2 2021, FL realized adjusted EPS of $0.71, versus the $0.55 that was recently being expected. Revenue of $2.08 billion also exceeded forecasts by approximately 5.5%. Same-store sales rose 18.6% in the quarter, and Foot Locker also reinstated its dividend, which it had previously suspended.

During the period, footwear sales was the strongest category, up strong double-digits. Apparel was also robust, up mid-single digits. The accessories business was down double-digits due primarily to softness in bags and shoe care. By category, men's basketball was the highlight in the quarter, delivering an impressive double-digit increase. In apparel, comparable sales were up mid-single digits for the quarter, with women's and kids' apparel up double-digits and men's up mid-single digits. Management said that it believed with consumers having lots of time at home, they were not surprised to see comfort at the top. While North American apparel was solid across the board, in Europe, the womens' and kids' businesses posted gains but not enough to offset declines in the company's men's assortment.

"I'm proud of the exceptional effort from our team this quarter," said CEO Richard Johnson. "Despite the challenging backdrop of the pandemic, and social unrest, we achieved strong second quarter results, led by our digital business, with a return to growth in both the top and bottom line. As our global fleet of stores reopened, our customers responded with enthusiasm and energy to our assortments and visited our stores with a high intent to purchase. As the COVID-19 situation continues to evolve, we believe we have the right strategies and strong leadership in place to strengthen our customer connectivity, deepen our strategic relationships with our vendors, navigate the challenges ahead, and emerge from this period better positioned than ever."

As of August 1, FL's cash totaled $1,373 million, while the debt on its balance sheet was $121 million, which reflects the repayment of the $330 million previously borrowed from the company's credit facility. As part of its cash preservation measures, the company did not pay a dividend or repurchase any shares during the second quarter, but with the strong liquidity position and more stable cash outlook, the company reinstated a $0.15 per share quarterly dividend, the first of which will be paid in October.

CFO Lauren Peters added, “The second quarter was truly a testament to our team’s ability to be nimble and to our financial and operational discipline. We delivered a meaningful increase in sales, managed our expenses tightly, and made progress towards our goal of improving our inventory position. Looking ahead, we believe the company is well positioned financially to maneuver through the evolving COVID-19 pandemic.”

While the near-term continues to be filled with headwinds and uncertainties, we believe that Foot Locker has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think longer-term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider “off-mall” concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. Our Target Price for FL now resides at $64.