Market Commentary Monday, October 19, 2020

October 19, 2020

EXECUTIVE SUMMARY

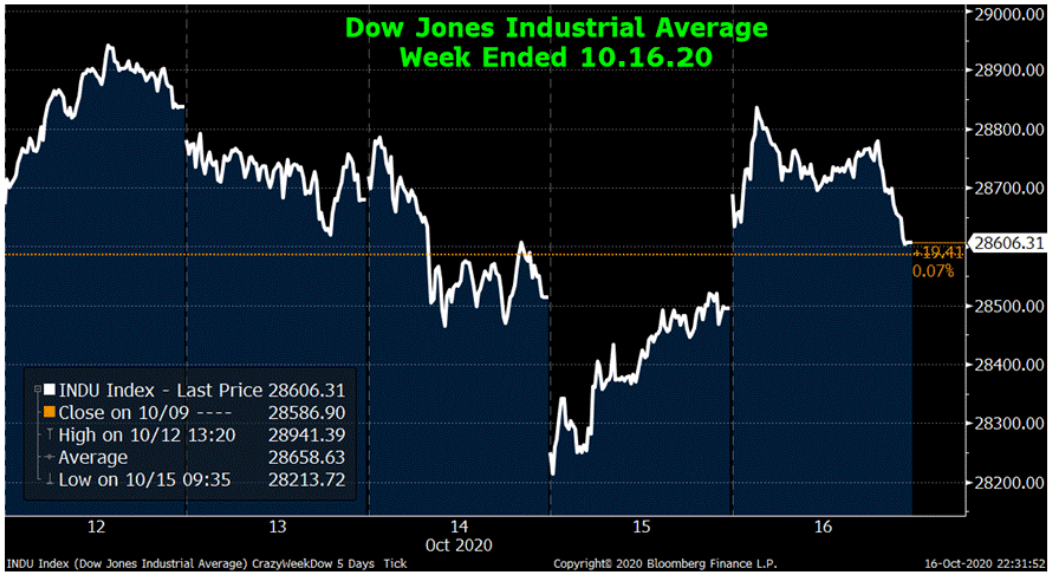
Week in Review – Wild Daily Ride; Small Weekly Move
Miracle of Compounding – Even Modest Returns Can Grow Very Large
Secret to Success – Volatility is Normal; Don't Get Scared Out of Stocks
Econ Update – Better Global Outlook from IMF; Decent Domestic Stats
Corporate Profits – Earnings Grow Over Time; Solid Start to Q3 Reporting Season
Earnings Yield – Stocks are Inexpensive
Washington – Political Parties and Stock Returns
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on AAPL, KLIC, HPE, JNJ, WBA, C, MS, GS, BLK, JPM, TFC, BAC & PNC

Market Review

It is fascinating that *The Wall Street Journal* in its Saturday edition proclaimed, "Stocks Cap Wild Week with Gains," when the major market averages ended the five trading days not too far from where they began. No doubt, there was plenty of drama throughout the week, ranging from health to politics to corporate profits, but when all was said and done, the Dow Jones Industrial Average gained just 19 points, or 0.07% on a total return basis.

VOLATILITY DEPENDS ON THE MEASURING STICK: DOW NEARLY UNCHANGED

In addition to developments on the COVID-19 front, the ongoing debate over an additional stimulus package and news emanating from the campaign trails, investors had to contend with the start of third quarter earnings reporting season. Not surprisingly, we suppose, stocks gyrated up and down with the Dow Jones Industrial Average trading in a 700-point range. However, when the dust settled, the Dow ended the week only 19 points above where it began, making it one of the "quietest" five trading days in market history...if we use weekly change as our measure.



While Value indexes were lower by a smidge, the S&P 500 and Russell 3000 indexes performed a little better, gaining 0.21% and 0.19%, respectively. We suspect that those modest returns might be greeted with a collective yawn, but believe it or not, that Russell 3000 return is the average weekly gain posted by large-capitalization stocks over the past nine+ decades. In fact, if one were to make 0.19% every week, the compound return for the full year would be roughly 10.4%. And if one can compound 10% returns over time, there would be terrific long-term rewards, as money would double in roughly seven years and quadruple in 14 years and grow 8-fold in 21 years.

THE PRUDENT SPECULATOR

MIRACLE OF COMPOUNDING

It is amazing how relative modest yearly return numbers can lead to substantial growth when time and simple math are applied. For example, Dow 50000 by the year 2030 would be achieved with annual price gains for the index of 5.6%...which is merely the historical average.

Miracle of Compounding - Dow 50000 by 2030

(Initial Value of Dow Jones Industrial Average = 29000, October 2020)

	Inflation 2.9%	Intermediate Gov't Bonds TR 5.1%	Dow Jones Industrial Average Price Return 5.6%	Corporate Bonds TR 6.2%	S&P 500 TR 10.1%	Fama/French Dividend Stocks TR 10.5%	Fama/French Value Stocks TR 12.8%
Oct-20	29,000	29,000	29,000	29,000	29,000	29,000	29,000
Oct-21	29,841	30,479	30,624	30,798	31,929	32,045	32,712
Oct-22	30,706	32,033	32,339	32,707	35,154	35,410	36,899
Oct-23	31,597	33,667	34,150	34,735	38,704	39,128	41,622
Oct-24	32,513	35,384	36,062	36,889	42,614	43,236	46,950
Oct-25	33,456	37,189	38,082	39,176	46,917	47,776	52,959
Oct-26	34,426	39,085	40,214	41,605	51,656	52,792	59,738
Oct-27	35,425	41,079	42,466	44,184	56,873	58,336	67,385
Oct-28	36,452	43,174	44,845	46,924	62,618	64,461	76,010
Oct-29	37,509	45,376	47,356	49,833	68,942	71,229	85,739
Oct-30	38,597	47,690	50,008	52,923	75,905	78,708	96,714
Oct-35	44,528	61,156	65,668	71,493	122,803	129,668	176,618
Oct-40	51,370	78,425	86,234	96,580	198,676	213,621	322,537
Oct-45	59,263	100,569	113,239	130,470	321,426	351,929	589,014

Compounded at average annualized rates that have been the historical returns on each investment from June 1927 to August 2020. Source: Kovitz using data from Morningstar, Bloomberg and Professor's Eugene F. Fama & Kenneth R. French. Past performance not a guarantee of future performance.

Alas, we know that many investors do not achieve those sort of multi-year returns,…

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%	111.3%	977	27	3.4	3/23/2020	9/2/2020
17.5%	66.8%	570	39	2.3	3/23/2020	9/2/2020
15.0%	66.5%	555	45	2.0	3/23/2020	9/2/2020
12.5%	44.3%	333	72	1.3	3/23/2020	9/2/2020
10.0%	34.9%	244	98	0.9	3/23/2020	9/2/2020
7.5%	23.7%	148	156	0.6	3/23/2020	9/2/2020
5.0%	14.8%	72	304	0.3	6/11/2020	9/2/2020

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	156	0.6	9/2/2020	9/23/2020
-5.0%	-10.9%	36	304	0.3	9/2/2020	9/23/2020

From 02.20.28 through 09.23.20. 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	12.8%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.5%	18.1%
Non-Dividend Paying Stocks	9.1%	29.4%
Large-Company Stocks	10.1%	18.8%
Small-Company Stocks	11.6%	28.4%
Long-Term Corporate Bonds	6.2%	7.6%
Long-Term Gov't Bonds	5.6%	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 08.31.20. 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 dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…as unfortunately they forget that the secret to success in stocks is not to get scared out of them.

THE PRUDENT SPECULATOR

KEEP CALM AND CARRY ON

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%	209%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	167%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	190%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	143%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	144%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	110%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	89%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	74%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	72%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		69%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		66%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		73%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		68%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		85%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		65%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		63%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**68%**	**106%**

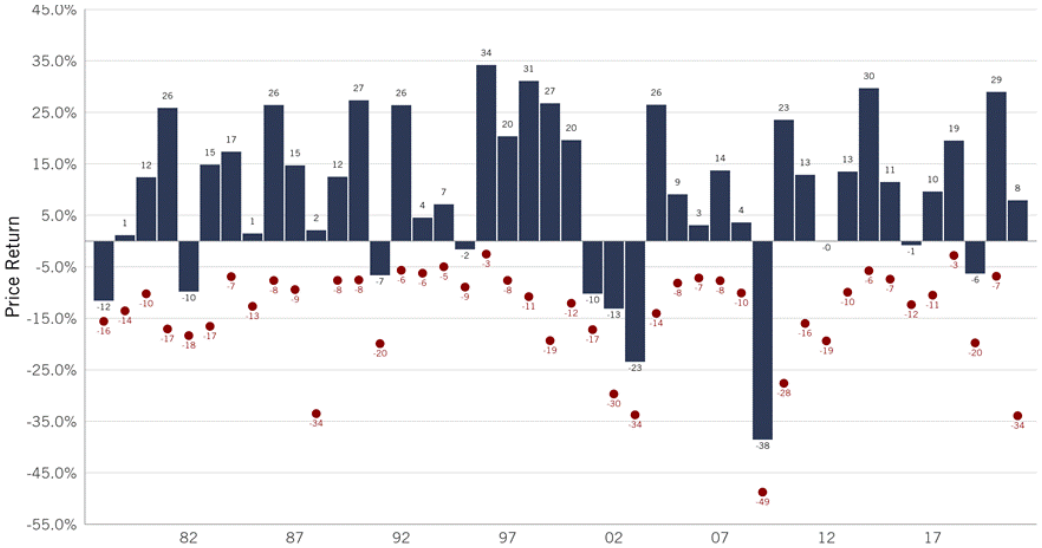
Source: Kovitz Investment Group using data from Bloomberg. As of 10.16.20

…which is why we constantly strive to provide perspective in these missives. As *TPS* founder Al Frank once said, "A large part of what we try to do is give readers the basis for a positive attitude toward the stock market."

THE PRUDENT SPECULATOR

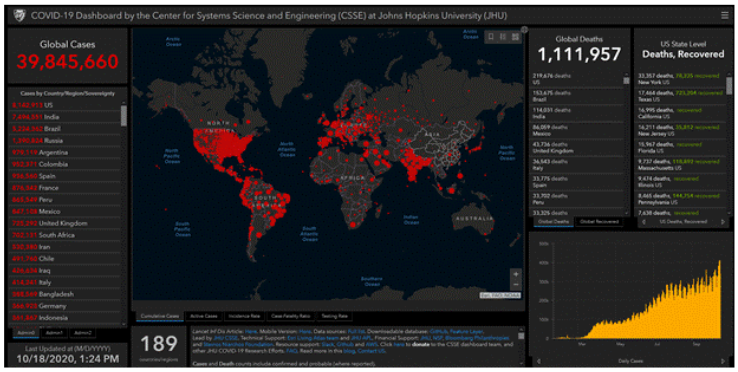
A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

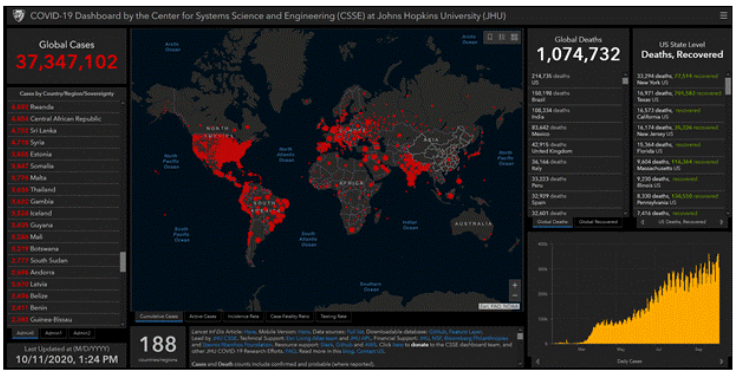
While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 44 years, including a 34% one (on a closing basis) this year.



From 12.31.76 through 10.16.20. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

To be sure, we realize that news on COVID-19 will remain critical to health and wealth, with progress continuing in fits and starts on vaccines and therapeutics, but case counts rising and localized lockdowns again being put in place in parts of the world.





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

With access to testing remaining high, there was another jump of more than 2.5 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 nearly 220,000 fatalities. While deaths obviously lag cases, and Europe, the United Kingdom and the U.S. have seen new spikes in those diagnosed with the virus, the 37,000 increase in the latest weekly fatality count improved from the recent 40,000 range. No doubt, the approaching flu season will represent another health risk.

No doubt, the course the virus takes going forward will significantly impact the outlook for economic growth around the world and here at home, but expectations for global GDP, including the latest forecasts from the International Monetary Fund, actually have improved in recent months.

IMF OCTOBER WORLD ECONOMIC OUTLOOK – IMPROVEMENTS SINCE JUNE

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from June 2020 WEO *Update*[1]		Difference from April 2020 WEO[1]	
	2019	2020	2021	2020	2021	2020	2021
World Output	**2.8**	**–4.4**	**5.2**	**0.8**	**–0.2**	**–1.1**	**–0.5**
Advanced Economies	**1.7**	**–5.8**	**3.9**	**2.3**	**–0.9**	**0.3**	**–0.6**
United States	2.2	–4.3	3.1	3.7	–1.4	1.6	–1.6
Euro Area	1.3	–8.3	5.2	1.9	–0.8	–0.8	0.5
Germany	0.6	–6.0	4.2	1.8	–1.2	1.0	–1.0
France	1.5	–9.8	6.0	2.7	–1.3	–2.6	1.5
Italy	0.3	–10.6	5.2	2.2	–1.1	–1.5	0.4
Spain	2.0	–12.8	7.2	0.0	0.9	–4.8	2.9
Japan	0.7	–5.3	2.3	0.5	–0.1	–0.1	–0.7
United Kingdom	1.5	–9.8	5.9	0.4	–0.4	–3.3	1.9
Canada	1.7	–7.1	5.2	1.3	0.3	–0.9	1.0
Other Advanced Economies[2]	1.7	–3.8	3.6	1.1	–0.6	0.8	–1.0
Emerging Market and Developing Economies	**3.7**	**–3.3**	**6.0**	**–0.2**	**0.2**	**–2.1**	**–0.5**
Emerging and Developing Asia	5.5	–1.7	8.0	–0.9	0.6	–2.7	–0.5
China	6.1	1.9	8.2	0.9	0.0	0.7	–1.0
India[3]	4.2	–10.3	8.8	–5.8	2.8	–12.2	1.4
ASEAN-5[4]	4.9	–3.4	6.2	–1.4	0.0	–2.8	–1.5
Emerging and Developing Europe	2.1	–4.6	3.9	1.2	–0.3	0.6	–0.3
Russia	1.3	–4.1	2.8	2.5	–1.3	1.4	–0.7
Latin America and the Caribbean	0.0	–8.1	3.6	1.3	–0.1	–2.9	0.2
Brazil	1.1	–5.8	2.8	3.3	–0.8	–0.5	–0.1
Mexico	–0.3	–9.0	3.5	1.5	0.2	–2.4	0.5
Middle East and Central Asia	1.4	–4.1	3.0	0.4	–0.5	–1.3	–1.0
Saudi Arabia	0.3	–5.4	3.1	1.4	0.0	–3.1	0.2
Sub-Saharan Africa	3.2	–3.0	3.1	0.2	–0.3	–1.4	–1.0
Nigeria	2.2	–4.3	1.7	1.1	–0.9	–0.9	–0.7
South Africa	0.2	–8.0	3.0	0.0	–0.5	–2.2	–1.0

Source: IMF staff estimates.
WEO = World Economic Outlook.
1 Difference based on rounded figures for the current, June 2020 WEO Update, and April 2020 WEO forecasts.
2 Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
3 For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
4 Indonesia, Malaysia, Philippines, Thailand, and Vietnam

International Monetary Fund October 2020

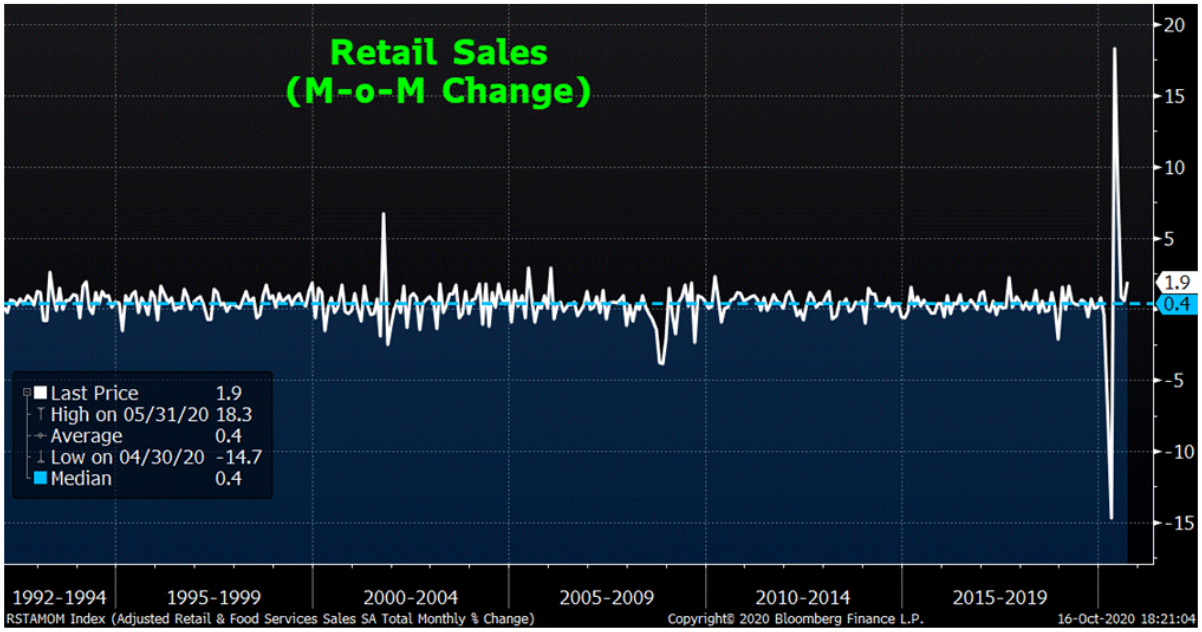
Global growth is projected at –4.4 percent in 2020, a less severe contraction than forecast in the June 2020 World Economic Outlook(WEO) Update. The revision reflects better- than-anticipated second quarter GDP outturns, mostly in advanced economies, where activity began to improve sooner than expected after lockdowns were scaled back in May and June, as well as indicators of a stronger recovery in the third quarter. Global growth is projected at 5.2 percent in 2021, a little lower than in the June 2020 WEO Update, reflecting the more moderate downturn projected for 2020 and consistent with expectations of persistent social distancing.

The latest batch of U.S. domestic statistics also were pretty good in terms of the willingness of folks to go shopping,…

THE PRUDENT SPECULATOR

WALLETS OPEN: BETTER-THAN-EXPECTED INCREASE IN RETAIL SALES

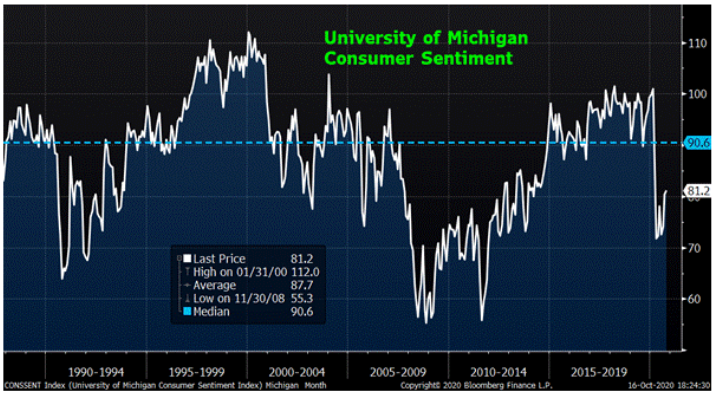
Even as the impact of government stimulus has waned, Americans continued to open their pocketbooks in September, with retail sales jumping 1.9%, better than the 1.2% increase expected. Even excluding strong auto sales, retail sales rose a healthy 1.5%.



…even as the data, though better-than-expected, were mixed on sentiment on Main Street,…

THE PRUDENT SPECULATOR

MIXED PICTURE ON MAIN STREET SENTIMENT

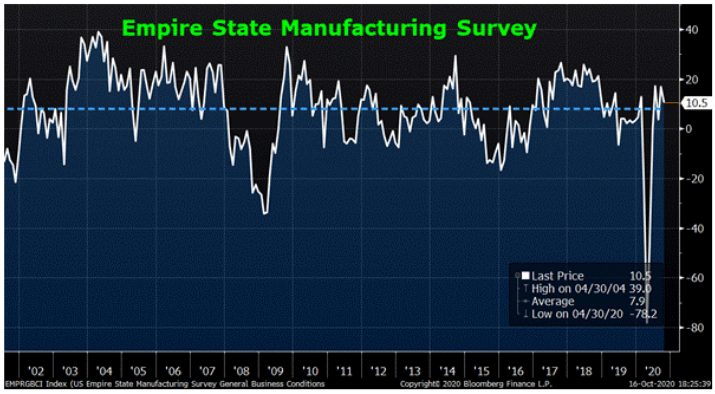


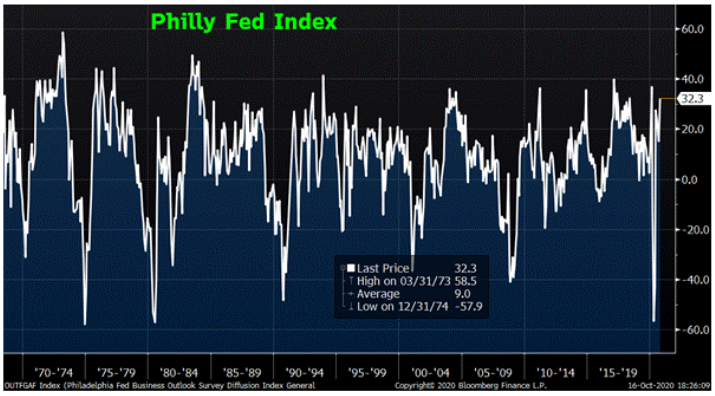
The NFIB Small Business Optimism Index for September jumped by a bigger-than-expected 3.8 points to 104.0, with the figure well above the 30-year average. Meanwhile, the preliminary Univ. of Michigan gauge of consumer sentiment this month edged up a tad to 81.2, compared to a final reading of 80.4 in September. Of course, given that the average for this gauge has been 87.7, consumers are not yet feeling upbeat.

…while manufacturing numbers were suggestive of an expanding factory sector,…

THE PRUDENT SPECULATOR

FACTORY OUTLOOK REMAINS UPBEAT IN OCTOBER



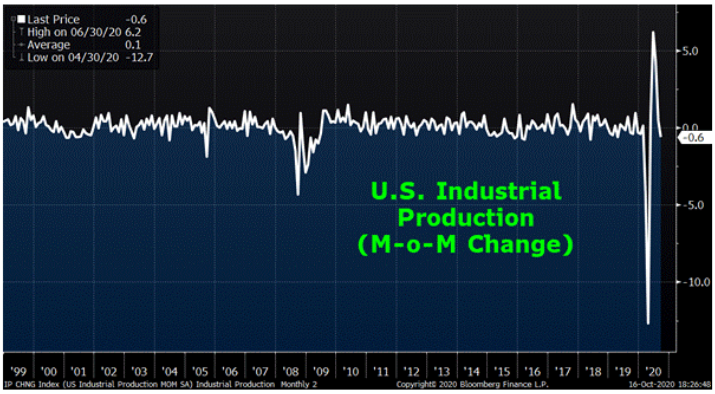


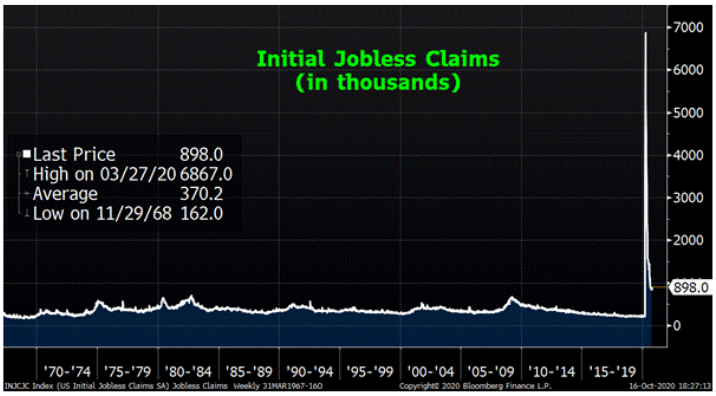
The Empire State gauge of manufacturing activity in the New York area dropped in October, reversing a big rise the month prior and falling to a reading of 10.5, still above average for this business conditions index. The Philadelphia Fed's October measure of manufacturing activity in the mid-Atlantic region surged to 32.3, much better than projected and well above the average for the index. Both numbers indicate solidly improving factory conditions.

…though not all figures were rosy.

THE PRUDENT SPECULATOR

NOT-SO-GRAND ECON STATS





Factory output fell for the first time in five months in September, with industrial production edging down by 0.6%, trailing estimates of a 0.4% advance, while capacity utilization came in at 71.5%, down from 72.0% in August. And, though it has shown considerable improvement, the labor market remains abysmal, as the number of first-time filings for unemployment benefits came in at 898,000 for the latest week, bringing the 30-week total to a massive 64.5 million.

Of course, significant GDP growth remains in the cards for the near-term,…

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 a 35.2% increase in GDP in Q3 on an annualized basis.

…while the Federal Reserve is even more optimistic about the U.S. economy in 2021 than the aforementioned IMF.

FED: BIG REBOUND IN '21 AND NEAR-ZERO INTEREST RATES THROUGH '23

The Fed's latest projections call for a much less severe recession (3.7% plunge in real GDP) this year, and a significant recovery of 4.0% GDP growth in 2021 and a decent 3.0% expansion in 2022, while the Fed Funds rate will likely remain near zero through 2023.

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

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9	-4.0–-3.0	3.6–4.7	2.5–3.3	2.4–3.0	1.7–2.0	-5.5–1.0	0.0–5.5	2.0–4.5	2.0–4.0	1.6–2.2
June projection	-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
Unemployment rate	7.6	5.5	4.6	4.0	4.1	7.0–8.0	5.0–6.2	4.0–5.0	3.5–4.4	3.9–4.3	6.5–8.0	4.0–8.0	3.5–7.5	3.5–6.0	3.5–4.7
June projection	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
PCE inflation	1.2	1.7	1.8	2.0	2.0	1.1–1.3	1.6–1.9	1.7–1.9	1.9–2.0	2.0	1.0–1.5	1.3–2.4	1.5–2.2	1.7–2.1	2.0
June projection	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
Core PCE inflation[4]	1.5	1.7	1.8	2.0		1.3–1.5	1.6–1.8	1.7–1.9	1.9–2.0		1.2–1.6	1.5–2.4	1.6–2.2	1.7–2.1	
June projection	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		
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1	0.1–0.6	0.1–1.4	2.0–3.0
June projection	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

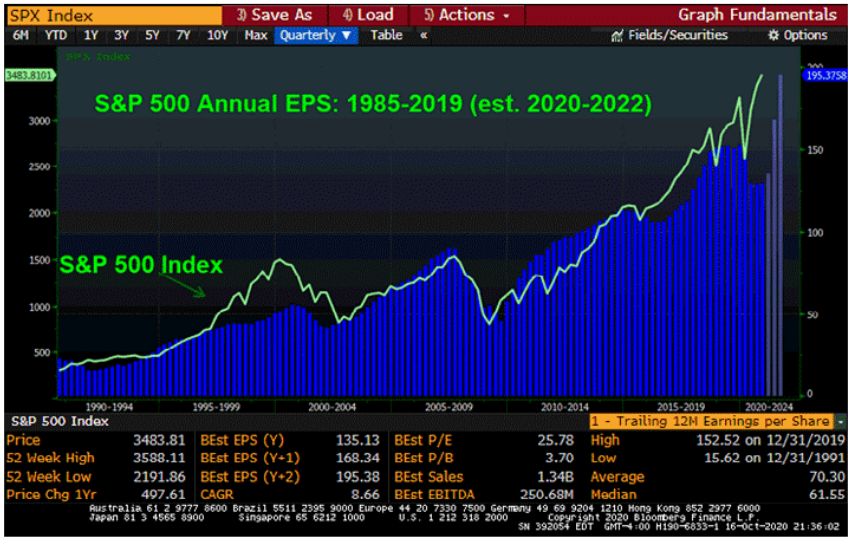
Source: Federal Reserve, September 16, 2020

We shall see what comes of the latest round of negotiations on additional stimulus from Washington, but we believe that in the fullness of time stock prices will move higher, given that corporate profits are likely to continue to grow over the long term.

THE PRUDENT SPECULATOR

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

Q2 earnings reporting season was very good, relative to analyst projections that had 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	$44.66	$164.22
9/30/2021	$42.27	$155.61
6/30/2021	$40.15	$146.71
3/31/2021	$37.14	$133.35
12/31/2020	$36.05	$115.71
9/30/2020	$33.37	$118.84
ACTUAL		
6/30/2020	$26.79	$125.28
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 10.15.20

On that score, third quarter earnings reporting season kicked off last week. While the sample size is small and banks represented the bulk of the companies that announced results, the numbers thus far have been very good. In fact, Bloomberg calculates that of the 50 members of the S&P 500 to have posted thus far, 86% (43) have exceeded bottom-line expectations, while 72% have beaten top-line projections.

Investors care far more about the outlooks offered by management teams, and, not surprisingly, executive commentary has been guarded, but most analysts are of the mind that the profit rebound from the ugly declines seen in Q1 and Q2 will continue over the balance of this year and into 2021. Of course, even at today's relatively subdued earnings level, stocks are very much reasonably priced, given the extraordinarily low interest rate climate.

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 (3.73% vs. 0.75% 10-Year) and generous S&P 500 dividend yield of 1.72%.

Despite our long-term enthusiasm for equities in general and our broadly diversified portfolios of undervalued stocks in particular, we understand that the November Elections are now just 15 days away. As such, we are braced for increased volatility, though we see no reason to significantly disturb our portfolios based on the outcome of the upcoming vote. Indeed, we continue to believe, and the historical evidence confirms, that time in the market trumps market timing.

THE PRUDENT SPECULATOR

STOCKS AND WASHINGTON

The current polls suggest a sizable lead for the Biden/Harris ticket in the race for the White House. Of course, market history (albeit not that many data points) suggests that a Democrat in the Oval Office is good for stocks and that a complete "D" sweep would bode very well for Value.

PARTIES IN POWER & ANNUALIZED RETURNS

Conceding that there are not a lot of data points from which to draw grand conclusions, stocks seem to like the letter D better than R.

Pres Pty	Con Pty	Div Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
D	R	14.8%	10.1%	15.6%	9.9%	15.0%	10.4%
D	D	14.1%	20.7%	20.6%	16.5%	12.9%	24.0%
D	S	15.3%	15.3%	14.5%	14.9%	15.6%	14.3%
R	R	-2.2%	-7.7%	-2.4%	-4.2%	-2.0%	-4.9%
R	D	9.8%	2.2%	10.7%	6.7%	9.5%	6.4%
R	S	6.7%	-3.5%	10.7%	1.9%	5.8%	5.4%
D Pres		**14.3%**	**18.0%**	**19.0%**	**14.9%**	**13.5%**	**20.3%**
R Pres		**5.1%**	**-2.3%**	**6.1%**	**2.0%**	**4.8%**	**2.3%**

Annualized Total Returns. From 12.31.28 through 12.31.18. Performance segregated by presidential and congressional party are geometric averages. Performance divided only by presidential party are also geometric averages. SOURCE: Kovitz using data from the U.S. House of Representatives, Morningstar and Professors Eugene F. Fama and Kenneth R. French

President Party	Congress Party	Start Date	End Date	Dividend Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
R	R	12.31.1928	12.31.1930	-39.5%	-65.3%	-56.0%	-54.4%	-31.2%	-69.9%
R	R	12.31.1930	12.31.1932	-50.1%	-50.8%	-52.6%	-44.2%	-48.0%	-52.5%
Hoover		**12.31.1928**	**12.31.1932**	**-69.8%**	**-82.9%**	**-79.1%**	**-74.5%**	**-64.2%**	**-85.7%**
D	D	12.31.1932	12.31.1934	80.1%	60.8%	116.0%	137.5%	51.8%	201.7%
D	D	12.31.1934	12.31.1936	83.4%	153.2%	152.1%	78.6%	97.8%	131.0%
Roosevelt		**12.31.1932**	**12.31.1936**	**230.3%**	**307.2%**	**444.6%**	**324.2%**	**200.1%**	**597.0%**
D	D	12.31.1936	12.31.1938	-13.7%	-31.2%	-31.3%	-19.3%	-14.8%	-44.2%
D	D	12.31.1938	12.31.1940	-3.0%	-22.0%	-16.1%	3.1%	-10.2%	-4.8%
Roosevelt		**12.31.1936**	**12.31.1940**	**-16.4%**	**-46.3%**	**-42.3%**	**-16.8%**	**-23.5%**	**-46.9%**
D	D	12.31.1940	12.31.1942	5.7%	13.5%	31.0%	-1.0%	6.4%	31.5%
D	D	12.31.1942	12.31.1944	61.5%	164.2%	143.3%	68.4%	50.8%	189.6%
Roosevelt		**12.31.1940**	**12.31.1944**	**70.7%**	**199.7%**	**218.8%**	**66.7%**	**60.4%**	**280.8%**
D	D	12.31.1944	12.31.1946	30.5%	44.3%	47.2%	31.8%	25.4%	53.4%
D	R	12.31.1946	12.31.1948	7.3%	-20.2%	8.5%	-5.0%	11.5%	-1.2%
Truman		**12.31.1944**	**12.31.1948**	**40.0%**	**15.1%**	**59.7%**	**25.2%**	**39.9%**	**51.6%**
D	D	12.31.1948	12.31.1950	59.2%	98.0%	84.7%	58.2%	56.5%	66.1%
D	D	12.31.1950	12.31.1952	38.0%	17.8%	28.9%	30.7%	46.8%	11.1%
Truman		**12.31.1948**	**12.31.1952**	**119.7%**	**133.2%**	**138.2%**	**106.8%**	**129.7%**	**84.5%**
R	R	12.31.1952	12.31.1954	51.7%	42.4%	58.2%	47.1%	51.1%	50.2%
R	D	12.31.1954	12.31.1956	36.8%	19.2%	33.7%	28.9%	40.2%	25.6%
Eisenhower		**12.31.1952**	**12.31.1956**	**107.5%**	**69.7%**	**111.6%**	**89.6%**	**111.8%**	**88.6%**
R	D	12.31.1956	12.31.1958	31.2%	30.6%	38.5%	37.5%	27.9%	40.9%
R	D	12.31.1958	12.31.1960	15.2%	0.8%	9.8%	13.8%	12.5%	12.6%
Eisenhower		**12.31.1956**	**12.31.1960**	**51.1%**	**31.6%**	**52.0%**	**56.5%**	**43.9%**	**58.6%**
D	D	12.31.1960	12.31.1962	17.7%	-8.1%	22.5%	4.3%	15.8%	16.4%
D	D	12.31.1962	12.31.1964	44.8%	15.4%	58.7%	28.0%	43.0%	57.6%
Kennedy/Johnson		**12.31.1960**	**12.31.1964**	**70.5%**	**6.0%**	**94.4%**	**33.6%**	**65.7%**	**77.6%**
D	D	12.31.1964	12.31.1966	1.6%	42.6%	20.1%	14.5%	1.1%	31.8%
D	D	12.31.1966	12.31.1968	42.9%	127.4%	103.6%	84.1%	37.7%	149.6%
Johnson		**12.31.1964**	**12.31.1968**	**45.1%**	**224.3%**	**144.6%**	**110.8%**	**39.3%**	**229.0%**
R	D	12.31.1968	12.31.1970	-7.4%	-48.9%	-13.9%	-23.9%	-4.8%	-38.1%
R	D	12.31.1970	12.31.1972	34.2%	21.4%	29.0%	38.7%	36.0%	21.7%
Nixon		**12.31.1968**	**12.31.1972**	**24.2%**	**-38.0%**	**11.1%**	**5.6%**	**29.4%**	**-24.7%**
R	D	12.31.1972	12.31.1974	-36.1%	-63.2%	-33.7%	-54.6%	-37.2%	-44.7%
R	D	12.31.1974	12.31.1976	81.0%	127.1%	139.5%	88.6%	69.9%	140.5%
Nixon/Ford		**12.31.1972**	**12.31.1976**	**15.7%**	**-16.5%**	**58.7%**	**-14.4%**	**6.6%**	**33.0%**
D	D	12.31.1976	12.31.1978	5.2%	41.7%	26.2%	17.3%	-1.1%	54.8%
D	D	12.31.1978	12.31.1980	60.3%	161.8%	56.5%	90.6%	56.8%	100.7%
Carter		**12.31.1976**	**12.31.1980**	**68.7%**	**270.9%**	**97.5%**	**123.6%**	**55.1%**	**210.6%**
R	S	12.31.1980	12.31.1982	20.4%	-4.2%	55.3%	9.7%	15.4%	45.8%
R	S	12.31.1982	12.31.1984	29.3%	-1.9%	54.1%	8.5%	30.2%	30.4%
Reagan		**12.31.1980**	**12.31.1984**	**55.6%**	**-6.1%**	**139.3%**	**19.1%**	**50.3%**	**90.0%**
R	S	12.31.1984	12.31.1986	57.9%	26.4%	56.2%	42.2%	56.6%	33.2%
R	D	12.31.1986	12.31.1988	21.8%	8.9%	23.1%	10.2%	22.9%	11.5%
Reagan		**12.31.1984**	**12.31.1988**	**92.3%**	**37.7%**	**92.3%**	**56.8%**	**92.5%**	**48.5%**
R	D	12.31.1988	12.31.1990	24.2%	2.8%	0.3%	15.6%	27.3%	-13.6%
R	D	12.31.1990	12.31.1992	45.2%	70.3%	73.5%	56.8%	40.6%	78.4%
Bush H.		**12.31.1988**	**12.31.1992**	**80.4%**	**75.1%**	**74.1%**	**81.3%**	**79.0%**	**54.2%**
D	D	12.31.1992	12.31.1994	9.9%	17.4%	20.8%	3.1%	11.4%	24.7%
D	R	12.31.1994	12.31.1996	69.6%	56.9%	69.6%	55.4%	69.1%	58.2%
Clinton		**12.31.1992**	**12.31.1996**	**86.4%**	**84.1%**	**104.9%**	**60.3%**	**88.5%**	**97.3%**
D	R	12.31.1996	12.31.1998	65.7%	60.8%	50.5%	41.1%	71.5%	13.8%
D	R	12.31.1998	12.31.2000	16.9%	16.6%	28.4%	13.4%	10.0%	25.1%
Clinton		**12.31.1996**	**12.31.2000**	**93.7%**	**87.4%**	**93.3%**	**60.0%**	**88.7%**	**42.4%**
R	R	12.31.2000	12.31.2002	-18.7%	-45.5%	-10.5%	-32.4%	-31.4%	6.5%
R	R	12.31.2002	12.31.2004	41.7%	62.0%	75.6%	56.9%	42.7%	90.3%
Bush W.		**12.31.2000**	**12.31.2004**	**15.2%**	**-11.7%**	**57.1%**	**6.0%**	**-2.1%**	**102.6%**
R	R	12.31.2004	12.31.2006	23.0%	19.1%	37.1%	12.7%	21.5%	22.8%
R	S	12.31.2006	12.31.2008	-31.7%	-36.4%	-39.8%	-31.3%	-33.5%	-40.0%
Bush W.		**12.31.2004**	**12.31.2008**	**-16.0%**	**-24.3%**	**-17.4%**	**-22.5%**	**-19.3%**	**-26.4%**
D	D	12.31.2008	12.31.2010	41.8%	84.4%	46.9%	64.9%	45.5%	68.1%
D	S	12.31.2010	12.31.2012	17.5%	15.5%	13.1%	14.0%	18.5%	14.4%
Obama		**12.31.2008**	**12.31.2012**	**66.7%**	**112.9%**	**66.2%**	**88.0%**	**72.4%**	**92.3%**
D	S	12.31.2012	12.31.2014	50.5%	53.7%	52.2%	53.0%	50.5%	49.3%
D	R	12.31.2014	12.31.2016	12.8%	11.4%	19.8%	9.7%	13.5%	21.1%
Obama		**12.31.2012**	**12.31.2016**	**69.7%**	**71.2%**	**82.3%**	**67.8%**	**70.8%**	**80.8%**
R	R	12.31.2016	12.31.2018	12.9%	26.8%	1.1%	22.8%	16.5%	-7.5%
Trump		**12.31.2016**	**12.31.2018**	**12.9%**	**26.8%**	**-1.1%**	**22.8%**	**16.5%**	**-7.5%**

Total Returns are not annualized. From 12.31.28 through 12.31.18. SOURCE: Kovitz using data from the U.S. House of Representatives, Morningstar and Professors Eugene F. Fama and Kenneth R. French

Stock Updates

We are in the process of posting updated Target Prices for all of our holdings to theprudentspeculator.com, and Jason Clark, Chris Quigley and Zach Tart look at 13 of our companies that had developments of sufficient importance to merit a Target Price review. 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/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Apple (AAPL – $119.02) released several new products at its "Apple Event," which was streamed worldwide. The company showed off new iPhones, cases, a refresh of MagSafe and a HomePod mini. As has been the case for several years now, there was little in the way of surprises and the next generation of iPhones brings back some of the iPhone 4 look. The new products to the iPhone line can push $2000 when considering taxes and the AppleCare extended warranty, though we think the maxed-out devices will sell in lower numbers than some of the mid-range (and very capable) iPhone 12 and iPhone 12 mini models.

While the new devices definitely offer improvements and some new colors, compared with the outgoing generation, we think that there is little that would convince someone with last year's phone to rush out and upgrade. Of course, with lengthening customer handset retention, the hardware differences compared with phones three or four generations old makes for a compelling upgrade case. The accessories are a high-margin opportunity and the HomePod mini should be a formidable Sonos competitor. Our Target Price for Apple is $137 and it remains one of the largest holdings in our broadly diversified portfolios.

Kulicke & Soffa (KLIC – $26.85), a manufacturer of equipment for use in the semiconductor business, raised guidance on October 13, sending shares up more than 7% for the week. KLIC now expects revenue for fiscal Q4 2020 to come in around $177 million, compared with the company's previous guidance range of $155 million to $175 million. CEO Fusen Chen stated, "We are pleased with our fiscal fourth quarter performance and current demand stemming from 5G and advanced display, which benefits our core and our new growth businesses. Broad market conditions remain dynamic and we remain cautiously optimistic as we look ahead into fiscal year 2021." The company's fourth quarter earnings release is scheduled after the market close November 18. We are pleased to see early indications of a strong quarter and look forward to the full report next month. Our Target Price has been hiked to $31.

In a headscratcher, shares of **Hewlett Packard Enterprise** (HPE – $9.48) surged in extended-hours trading on Thursday after the company raised guidance for fiscal 2021, before giving up all of those gains and quite a bit more in closing more than 4% lower from the pre-announcement level on Friday. Maybe Wall Street was unhappy that the company actually makes money, but we are not quite sure how a rational market would decide that better-than-expected results were good for a sizable one-day haircut in the share price. Evidently, analysts raised concerns about the sustainability of long-term growth trends, yet they didn't have those same worries the day prior! Believe it or not, HPE expects diluted EPS between $1.56 and $1.76 next year, up 10% year-over-year when adjusted for stock-based compensation, and annualized free cash flow growth above 50% through 2023, while the forward P/E ratio is now south of 7.

HPE CEO Antiono Neri commented "I am pleased with the progress we made in [fiscal 2020] despite very challenging circumstances. We strengthened our core capabilities and advanced our innovation agenda on many fronts. And I am convinced of several things that I plan to cover in our time together today. First, they are very compelling industry trends that we are driving the next wave of digital transformation and that presents tremendous market opportunities for HPE. Second, we already have a distinctive and industry-leading portfolio of edge-to-cloud solutions and unique capabilities that are resonating with our customers. And third, our strategic priorities will position us well to deliver long-term, sustainable, profitable growth."

Mr. Neri continued, "Our overall approach hinges on providing a true distributed cloud experience at the edge, in a data center, in a co-location or in the public cloud to help customers modernize and transform their applications. Over the last several months, customers have increasingly turned to HPE to ensure they have the capabilities edge-to-cloud to extract insights from critical data and to help them leverage and consume IT more flexibly as a service."

HPE's fiscal Q4 report is scheduled for November 11, which will include more detail on the company's quarterly performance. We understand the skepticism regarding HPE's transition, and to be fair, we have waited patiently for many of our holdings to rework their businesses. Many times, they are successful, though there is always an embedded flop risk. However, most analysts and their price targets look a year (or so) out, and we think often fail to be sufficiently patient. We believe that HPE is headed in the right direction and we like the company's diverse offerings, including 5G networking, and potential to grow subscription revenue. Shares yield a very generous 5.1% and our Target Price has been bumped up to $17.

Global health and pharmaceutical concern **Johnson & Johnson** (JNJ – $148.10) released Q3 results that were substantially higher than analyst estimates, but shares retreated for the week after the company announced that it was temporarily suspending a COVID-19 trial. JNJ earned an adjusted $2.20 per share, compared with an analyst consensus of $1.98, while revenue was $21.1 billion, above the $20.2 billion estimate. JNJ said that global operational sales increased 2.0% and rose 2.8% in the U.S. COVID continued to negatively impact JNJ in the quarter, but procedure volume, scripts and physician office visits are recovering faster than management expected.

THE PRUDENT SPECULATOR

JNJ – SOLID QUARTER

The company provided an update on its COVID-19 efforts. CFO Joe Wolk said on October 13, "Our team continues to be hard at work pursuing a vaccine candidate to help combat the COVID-19 pandemic, and we are proud of the progress that has been made thus far. On September 23, we announced that the first participants were dosed in our pivotal multi-country Phase III trial ensemble, which will evaluate a single dose of our COVID-19 vaccine candidate and up to 60,000 people worldwide, including representation from high-risk populations and underrepresented communities. This follows positive interim results from our Phase I/IIa study, which showed the safety profile and immunogenicity after a single vaccination with our candidates supported for the development. These findings demonstrated that a single dose resulted in immunogenicity in all age groups with similar responses, including older adults. A single dose of a safe and effective vaccine could offer a significant advantage during a global pandemic. We also appreciate that a 2-dose regimen may have the potential for enhanced durability in some participants. Therefore, we plan to run a Phase III clinical trial with a 2-dose regimen beginning later this year."

On October 15, JNJ announced that it was temporarily pausing all COVID-19 vaccine trials, including the Phase III ENSEMBLE trial due to an unexplained illness in one of the study's participants. JNJ was clear to note that the study pause was to protect the safety of clinical trial participants and, typically, JNJ does not communicate study pauses publicly. Due to patient privacy laws, the company offered no further detail on the nature of the illness or expected duration of the pause.

Of course, study pauses are fairly common, so we made no change to our Target Price on that specific news. It seems likely that that there will be more than one COVID-19 vaccine on the market, and the long-term efficacy will not be apparent for a few years or more. If the winner of the COVID vaccine is JNJ, it will be a blockbuster and shareholders are likely to see a substantial gain given the scale of distribution, but not because the company will be able to charge an exorbitant price. That said, we like the company's diversified income stream (business units and geographic) and think JNJ fits well in our broadly diversified portfolios. JNJ yields 2.7% and sports reasonable valuation metrics including a forward P/E ratio around 17. Our Target Price for JNJ has been increased to $176.

Shares of **Walgreens Boots Alliance** (WBA – $37.41) rose nearly 3% last week thanks to the release of fiscal Q4 results that beat analyst expectations. WBA earned $1.02 per share (vs. the $0.96 est.) on revenue of $34.8 billion. Fiscal 2020 was not particularly kind to Walgreens, as a significant reduction in traffic from the pandemic, especially in its U.K. stores, led the firm's leaders to close more than 200 stores, but management expects low single-digit earnings per share growth in its fiscal 2021.

CEO Stefano Pessina will be stepping down from the corner office, but will remain Chairman. Mr. Pessina commented on the firm's progress throughout the year, "This has been a very difficult time but, as you would expect, we are proving to be very resilient. We are financially robust with strong and reliable cash flow, driven in part by our brand and customer loyalty. And this has allowed us to continue to invest in modernizing our company. We are confident we will come out of this in better shape as an organization."

He continued, “Throughout this crisis, the vital role that pharmacy plays for the customers we serve has been comprehensively proven. It is a great tribute to our teams that we have continued to service our pharmacy patients without major disruptions to drug availability or to our high standards of care. Looking forward to 2021 and beyond, we have initiatives underway to further strengthen the bond we have with our customers, whether they choose to interact with us physically or virtually, driving volumes in both pharmacy and retail. There is no doubt that all markets and many businesses will continue to face the negative impacts of COVID in fiscal year ’21, and it is expected that the next 2 quarters will see difficult trading conditions. However, we are optimistic that we will see a market recovery as the year progresses.”

While we accept that the retail pharmacy space is likely to remain challenging in the near term, we continue to think WBA is an important player in the industry as it generates per store revenue that is much higher than its closest peer. We also continue to believe that over the long term there is substantial opportunity to benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations. Even as WBA continues to invest in transformation projects with **Kroger** (KR – $34.07), **McKesson** (MCK – $156.67) and others, we expect the firm’s robust free cash flow to support continued growth of the dividend (the yield is 5.0%) and share repurchases. Our Target Price for the stock has been bumped up to $80.

Global banking concern **Citigroup** (C – $50.22) released Q3 financial results that bested analyst estimates ($1.40 vs $0.92 per share). The beat was mostly due to a much lower provision for losses in Q3 ($2.2 billion) compared to the $7.8 billion from last quarter, and more in line with recent norms. The allowance left reserves about the same as Q2 at $26.4 billion. Having adjusted its economic outlook downward a couple of times throughout the year, management suggests current reserve positioning is conservative relative to its base case expectations. Q3 revenue of $17.3 billion was down 7%, given muted rate spreads and a significant reduction in consumer spending activity across emerging markets. On the bright side, markets and investment banking remained strong, while deposits rose 16% year-over-year across the franchise.

Citi has been all over the press in recent months for issues related to the firm’s internal controls and risk systems, as well as a change in leadership as current CEO Michael Corbat plans to step down early next year. Mr. Corbat commented, “Turning to the consent orders. They focus on 4 areas that impact our risk and control environment: risk management, data governance, controls and compliance. What ties these areas together is the need to modernize our infrastructure, governance and processes. We’ve had remediation programs in place. And while we’ve been making progress in these areas, we’re simply not where we need to be. While this is disappointing, we’re committed to thoroughly addressing the issues identified in the orders and modernizing our bank.”

He continued, “As many of you know, we’ve been making structural changes in accelerating investments. We’ve centralized program management and learn from unsparing root cause analysis from outside firms. We’re laser-focused on reducing manual touch points, automating processes and ensuring accurate data can be accessed quickly when we’re producing management and regulatory reports. More importantly, we’re making strengthening our risk and control environment and achieving operational excellence a strategic priority for the firm going forward.”

Conclusions

Managing well through this crisis year-to-date

- Significant earnings power with ~$7B of net income, despite ~$11B increase in reserves
- Solid client engagement across ICG and robust performance in Markets and Inv. Banking
- Strong growth in GCB deposits and Asia wealth, albeit with lower rates and spend activity
- Supported clients while maintaining credit discipline and balance sheet strength

Maintaining strong capital and liquidity position

- Common Equity Tier 1 Capital Ratio of 11.8%(1)
- Supplementary Leverage Ratio of 6.8%(1)
- Liquidity Coverage Ratio of 118%, with available liquidity of over $950 billion(2)
- Tangible Book Value per share increased 4% year-over-year to $71.95(3)

Key execution priorities

- Continue to invest in infrastructure supporting our risk and control environment
- Remain committed to serving clients, protecting employees and supporting economy
- Demonstrate financial strength and operational resiliency
- Focus on building a stronger company for the future

Note:
(1) Preliminary. For additional information on these measures, please refer to Slides 32 and 33.
(2) Preliminary. Over $950 billion of available liquidity resources including HQLA, additional unencumbered securities and available borrowing capacity at the FHLBs and Federal Reserve Discount Window.
(3) Citi's Tangible Book Value per Share is a non-GAAP financial measure. For additional information, please refer to Slide 33.

13

citi

While the near-term uncertainty and need to get its house in order will continue to weigh, we think C shares remain quite attractive for those with multi-year time horizons. A longer-term return to improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business) will be quite beneficial for shareholders. We still like that C has good leverage towards the U.S. economy, while also having the potential to show outsize benefits versus its peers from growth in Asia, Latin America and other emerging economies. Our Target Price for C now stands at $90. True, share repurchases have been halted, but we believe the cash dividend is still secure. The yield is a hefty 4.7%.

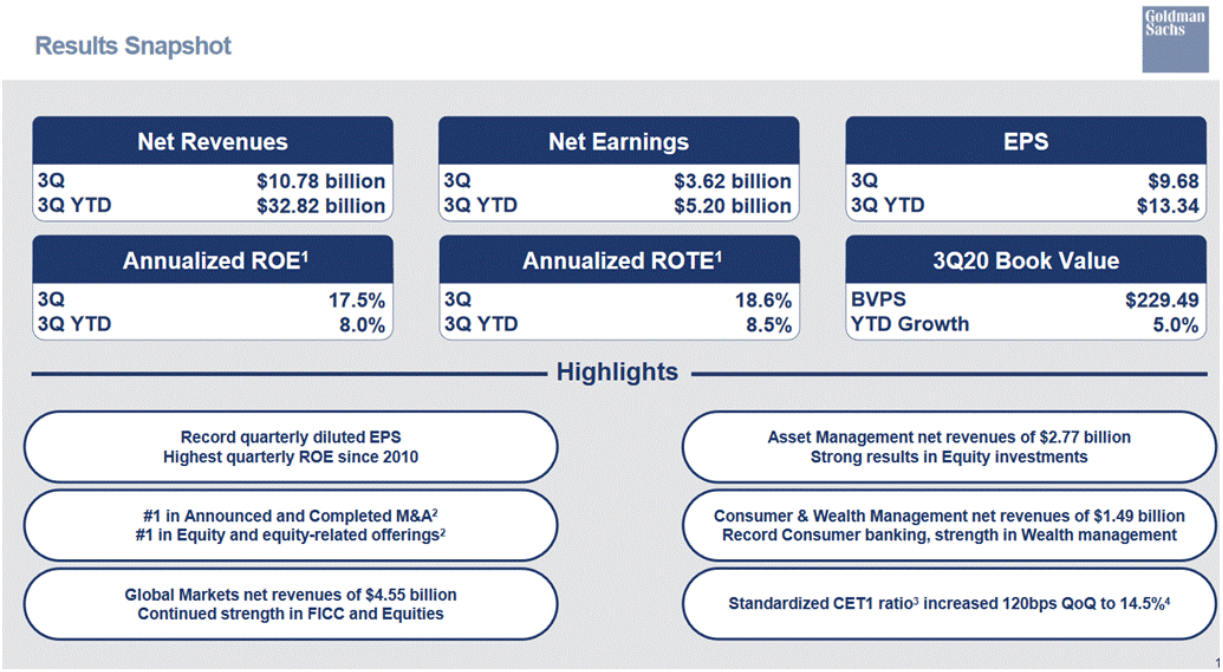
Shares of **Morgan Stanley** (MS – $51.85) gained over 6% last week as the global financial firm posted strong Q3 results Adjusted EPS for the three months came in at $1.59, more than 24% higher than the consensus analyst estimate. Besides top-line results being better than expected, MS also delivered stronger efficiency and capital ratios. The company also continued to benefit from the recent announcement that it would buy investment manager Eaton Vance, which positions Morgan Stanley better in asset management by adding strengths in Solutions, ESG and U.S. distribution, with the potential to expand EV's products outside the U.S.

MS CEO James Gorman commented, "We delivered strong quarterly earnings as markets remained active through the summer months, and our balanced business model continued to

deliver consistent, high returns. The completion of the E*TRADE acquisition, the subsequent ratings upgrade from Moody's, and the recently announced acquisition of Eaton Vance significantly strengthen our firm and position us well for future growth…For a decade now, we've been rebuilding Morgan Stanley from the depths of the crisis to a position to withstand whatever comes our way. Our performance this year has validated that approach."

We like the diversifying acquisition of Eaton Vance and we also believe the recently closed purchase of E*Trade gives MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted wealth-management clients. In the near-term, we believe MS will benefit from continued strong capital market activities, and we see the opportunity to take larger wallet share in wealth management with $2.7 trillion in client assets already. While financial stocks face headwinds in the low-interest-rate environment, MS has performed well and we are constructive on its lower exposure to consumer and commercial loans, its healthy balance sheet and its relatively inexpensive valuation. MS trades for 10.3 times NTM earnings and yields 2.7%. Our Target Price has been raised to $78.

Despite turning in blowout Q3 results, shares of **Goldman Sachs Group** (GS – $206.21) fell slightly last week. For the quarter, GS reported a top-line of $10.78 billion. which was almost 15% higher than expectations, and turned in adjusted EPS of $9.68, more than 76% higher than the consensus analyst estimate. The record-setting results came from stronger revenue, lower provisions and good expense controls.

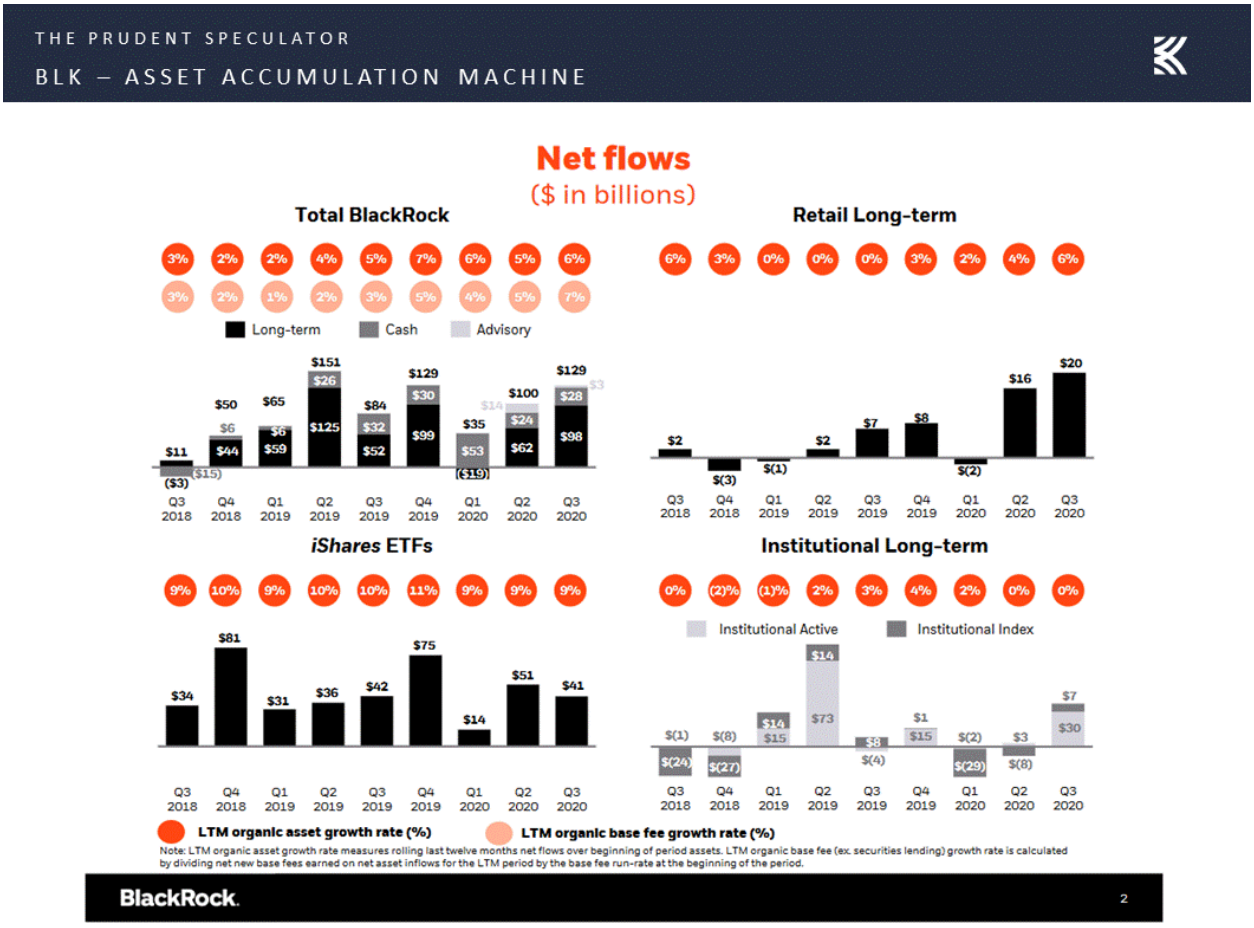


Goldman CEO Dave Solomon stated, "Our ability to serve clients who are navigating a very uncertain environment drove strong performance across the franchise, building off a strong first half of the year. As our clients begin to emerge from the tough economy brought on by the pandemic, we are well positioned to help them recover and grow, particularly given market share gains we've achieved this year."

True, the near-term backdrop remains challenging, while there is plenty of uncertainty surrounding the pandemic and its fallout, but strong activity levels, a healthy balance sheet and strategic repositioning have us thinking that GS shares remain quite attractive for the long-term, especially given the strong results the company has been able to produce the last two quarters amidst the chaos. We would not be surprised to continue to see strong earnings versus numerous competitors because of the company's lower interest-rate exposure. The build out of its traditional banking and investment-management businesses should serve shareholders well in the long run, as currently almost two-thirds of Goldman's revenue comes from its investment banking and global markets trading business segments. The ultimate goal of Goldman's evolution is to change the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. That said, we realize that it may take a few years for the efforts to begin to be truly rewarded by investors. Shares trade at just 8.4 times

NTM earnings estimates and below book value. The current dividend yield is 2.4%. Our Target Price for GS has been raised to $294.

Shares of investment giant **BlackRock** (BLK – $657.38) jumped 7.5% this past week, propelled by strong Q3 results. For the quarter, BLK earned an adjusted $9.22 per share (vs. $7.78 est.) from revenue of $4.37 billion (vs. $3.92 billion est.). We found it interesting that the quarter saw $47.1 billion of inflows into actively managed investment strategies, vs. $50.5 billion in passive strategies (index funds and ETFs), the latter an area via iShares for which BLK has become well known. Alternatives and fixed income continue to be strong growth drivers, while sustainable products are seeing strong momentum.



BLK CEO Larry Fink commented, "As investors around the world navigate current uncertainty, including the pandemic and uneven economic recovery, BlackRock is serving clients' needs with global insights, strategic advice and whole-portfolio solutions. We purposefully built the most comprehensive, fully-integrated, investment and risk management technology platform in the industry to deepen partnerships with clients as we help them achieve their long-term goals…BlackRock generated $129 billion of total net inflows in the third quarter, representing 9% annualized organic base fee growth. Our diverse platform saw inflows across all asset classes, investment styles and regions. Notably, more than 50% of long-term flows were driven

by clients in Europe and Asia…Our results are a validation of our globally integrated asset management and technology business model, which allows us to consistently invest and evolve ahead of client needs. Each of our strategic investment areas, including iShares ETFs, alternatives and technology, continue to grow, while strong investment performance has driven positive active flows over the last year. And as clients look to integrate ESG into their portfolios, BlackRock is uniquely positioned with industry-leading sustainability research, investment strategies and technology."

We were pleased, but not surprised, to see BLK post another strong quarter. Analysts continue to look for earnings growth in 2020 (unlike most companies), with EPS expected to rise from $28.48 in 2019 to more than $38.22 in 2022. The company has also maintained its $3.63 quarterly dividend (a yield of 2.2%). Our Target Price has been hiked to $683.

Financial services behemoth **JP Morgan Chase & Co.** (JPM – $101.51) released Q3 2020 financial results last week that walloped analyst expectations ($2.92 vs. $2.26 est.). Despite the beat, shares remain 28% below where they began the year. Noninterest revenue continued to pull the lion's share of the weight in the quarter (56% of the $29 billion in total revenue), backed by strength in investment banking, trading and mortgage fees. Loss provisioning came in at just $600 million compared with more than $10 billion last quarter, and more than half of loan balances that had deferred payments (mostly from the mortgage portfolio) left deferral status in the period, 92% of which are now current on their payments.

With interest rates still in the basement, management expects full-year net interest income of $55 billion for 2020, some $2 billion lower than the 2019 figure despite average loan growth of 1% so far year-over year. The corollary is the staggering growth in low cost funding (deposit growth is now 28% year-over year).

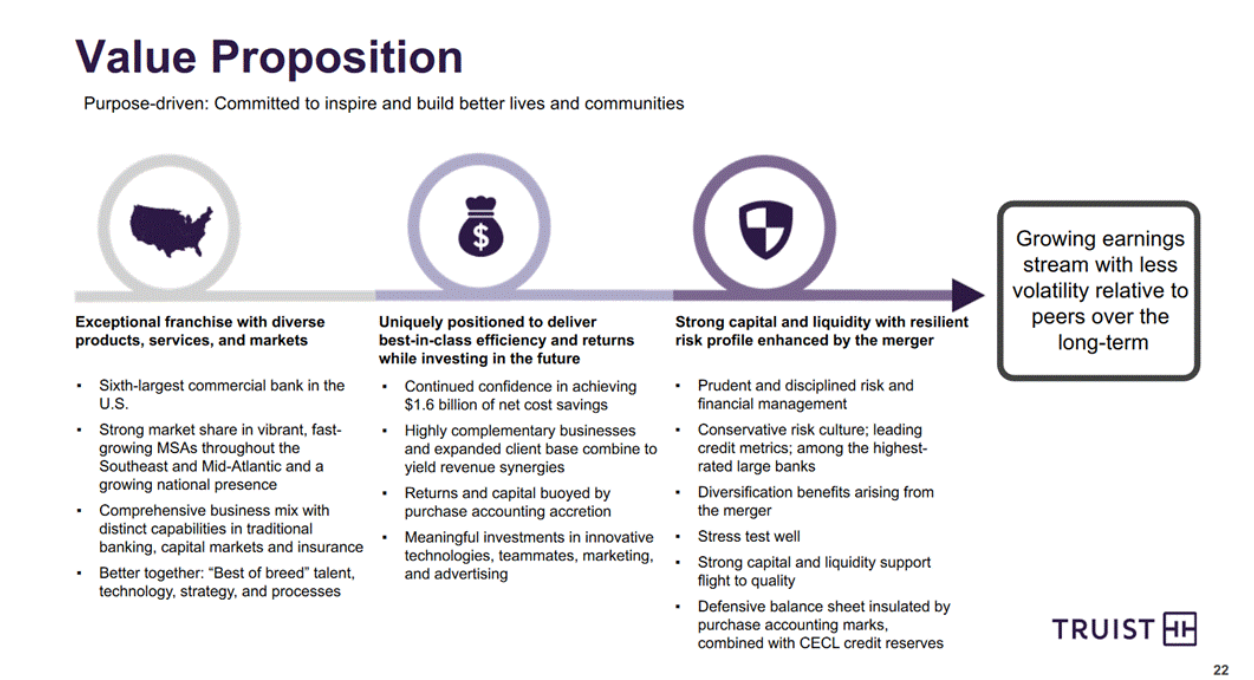
Given the prevailing monetary and fiscal stimulus this year, CEO Jamie Dimon pontificated on the consequences of low interest rates, "I think negative interest rates are a bad idea and will probably force, over time, the banking industry to strength, which means they'd be buying back stock and doing other things with their capital. But I — but we're able to handle low rates, and we can have decent returns at low rates. I think it's a bad long-term strategy. I also think it's a bad idea for you all to assume they're going to continue like that forever. I mean we had massive global QE in the last go around, and we didn't have inflation. But I remind people, a lot of that QE was a round trip. The Fed and the central banks support securities so that would create deposits to banks. The banks support to put deposits in the central banks. So it was not new inflationary fiscal stimulus. Fiscal stimulus which has been extraordinary around the world is, by its nature, inflationary. And so we don't really know the outcome of that. But my view, what I tell investors, we're going to build our businesses day in and day out regardless of interest rate environments, et cetera. And we have plans to adjust interest rate environments. We can not do certain things. We can charge for certain things. We can do a whole bunch of different stuff. But the services is still required, moving money around the world, trading for people, underwriting securities, helping manage their money, and we'll be okay. We'll work through it."

JP Morgan continues to prove itself as a premier financial institution whose multiple levers have certainly served it well throughout a very difficult year. Despite operational and macroeconomic

headwinds, the bank built its Tier 1 common equity ratio to 13% in the quarter. And even though share buybacks remain on pause, the strong base of capital and latest quarter of strong performance should protect the current ($0.90 per share per quarter) dividend despite the Federal Reserve's capital and income tests. Shares yield 3.5% and our Target Price has been boosted to $144.

Truist Financial (TFC – $41.65) released its third quarter financial results on Thursday. The regional bank earned $0.97 per share (vs. $0.88 expected by analysts) even as both fee and interest income were slightly down quarter-over-quarter. The bank's loan loss provisions in Q3 were nearly half of Q2 with only a slight reserve build. Truist produced a 16.1% return on tangible equity and an efficiency ratio of 57.3%, versus 55.8% in the prior quarter, while Tier 1 common equity was boosted to 10% of risk-based assets.

"We are pleased to report strong performance for the quarter, particularly given the challenging environment," said CEO Kelly S. King. "Our earnings reflect a modest build in our allowance for loan and lease losses, benefiting from our relatively stable asset quality. We also benefited from our diverse noninterest-income generating businesses and disciplined core expense control. We experienced growth in service charges on deposit accounts and card and payment related fees due to some waiver abatement and increased activity from clients. In addition, we are selectively investing in our insurance, investment banking, residential mortgage and wealth teams to drive more client business. We also made progress in terms of our systems integration as we work to build out all the capabilities of Truist. In August, we completed the conversion of Truist Securities, integrating the corporate and investment banking businesses of BB&T and SunTrust. We were pleased with this very successful major client-facing systems conversion."



While the current environment remains challenging for nearly all banks, we appreciate the competitive brand that both BB&T and Suntrust bring to the southeastern U.S. And, while net interest margins remain under pressure, Truist's fee income should provide ballast as management works to wring out costs throughout the two entities. The dividend remains well within the Federal Reserve's test (average of income from the latest four quarters) and the yield is now 4.3%. We've adjusted our Target Price to $60.

Shares of **Bank of America** (BAC – $24.24) fell 4.4% last week, even as the diversified financial services giant reported a decent Q3 that saw bottom-line results beat expectations. Adjusted EPS came in at $0.51, versus the consensus estimate of $0.50. While earnings were down year-over-year, they were actually up sequentially. Net interest margin continued to suffer, somewhat offset by fee income. BAC didn't see the extreme strength in trading that it had realized in the previous quarter, but had strong results from Investment Banking. Management expects that Q3 will prove to be the bottom for net interest income and we would also think fee income will stabilize, as investment banking and trading fees retreat a bit while some of the payments and volumes related fees continue their recovery.

CEO Brian Moynihan stated, "As the economy continued to recover, we generated nearly $5 billion in earnings this quarter, reflecting the diversity of our business model, our industry-

leading market position and digital capabilities, and our adherence to responsible growth. Our Consumer business earned $2.1 billion as asset quality remained sound and spending rebounded. Our Wealth Management business showed once again why it is an industry leader in providing timely advice and guidance to clients, and our Global Banking and Global Markets businesses continued to support the global economy by helping clients raise capital, manage risk and increase liquidity. We also supported our communities by making progress on our $1 billion commitment to drive racial equality and issuing a $2 billion Equality Progress Sustainability Bond. I want to thank our teammates for their exceptional work under extraordinarily difficult circumstances."

CFO Paul Donofrio added, "The past nine months have tested us and I'm proud to say that our teammates have responded extraordinarily well – continuing to deliver for our customers, our communities and our shareholders. In addition to providing billions of dollars in credit and liquidity to clients, and committing billions more to the communities in which we live and work, we have earned more than twice our dividend in every quarter since the crisis began. Equally important, our capital position and credit reserves increased this quarter, which positions us to continue to be a source of strength for all of our stakeholders."

Despite the difficult operational landscape due to the pandemic and low interest rate environment, BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the multiple levers the bank has to generate business. Moreover, we expect growth in digital engagement to continue (with the bank now reporting 39.3 million active digital banking users), driving further reduction of the physical footprint and cost savings. COVID-19 headwinds remain and elevated loss provisions throughout the remainder of the year are likely, but shares trade for 12 times NTM adjusted EPS projections and offer a dividend yield of 3.0%. Our Target Price for BAC remains $38.

PNC Financial Services (PNC – $101.50) reported adjusted Q3 2020 earnings on Wednesday that overwhelmed analyst estimates. The regional bank reported profits of $3.39 per share (vs. $2.13 est.) as loan loss provisions fell significantly compared to the prior two quarters. Deposits increased 5% in Q3 to $355.1 billion, which management attributes mostly to liquidity accumulation form commercial customers, and government stimulus payments and lower spending on the consumer side. Net interest income was lower than last quarter by 2% due to compressed net interest margin, higher balances at the federal reserve and lower loan balances.

Third Quarter 2020 Highlights

PNC

- Solid results despite an uncertain economic environment
- Strong revenue growth and expense management resulted in positive operating leverage and efficiency improvement
- Provision decreased substantially driven by improving macroeconomic outlook
- Robust capital and liquidity continues to position us well in the current environment
- Continuing to execute on strategic priorities

Net Income
$1.5 billion

Diluted Earnings Per Share
$3.39

Operating Leverage
4.4%

Average Deposit Growth
5%

Return on Tangible Common Equity
14.47%

– Growth rates compared to second quarter 2020.
– Return on Tangible Common Equity (Non-GAAP) – See Reconciliation in Appendix.

3

CEO Bill Demchak commented, "PNC delivered solid third quarter results against the backdrop of a continuing uncertain economy. Noninterest income increased, expenses were well managed and we continued to generate positive operating leverage. Deposits grew while loans declined as a result of lower commercial loan utilization rates, despite growth in loan commitments. Our provision for credit losses was significantly less than last quarter, reflecting stable reserve levels. We continue to execute on our strategic priorities, including ongoing investments in our national expansion and digital offerings. We have substantial capital and liquidity flexibility, and remain well positioned to take advantage of potential investment opportunities to enhance shareholder value."

Despite the persistently low interest rate environment, the surge in deposits should keep funding costs low for some time. We also expect management to do some shopping with proceeds from its big sale earlier in the year of Blackrock shares in the not-too-distant future. Shares are attractive with a 12.3 P/E ratio and a handsome dividend yield of 4.5%. Our Target Price now resides at $152.