Market Commentary Monday, November 9, 2020

November 9, 2020

EXECUTIVE SUMMARY

Newsletter Portfolio Purchases – 4 Stocks for Two Accounts
Most Wonderful Time of the Year – Who Says the Markets Don't Like Uncertainty?
FOMC Meeting – Jerome Powell & Co. to Remain Highly Accommodative
Econ Update – Solid Numbers
Case for Equities – Favorable Earnings Comparisons, Rising Dividends, Generous Yields and Lackluster Sentiment
Stock News – Updates on QCOM, ALB, ETN, CVS, MCK, CAH, JNJ, BIIB, NLOK, GM, HMC, REG, MOS, NTR, MET & LEG

Market Review

A little housekeeping before this week's missive. As discussed in the November edition of *The Prudent Speculator*, we added the following to our hypothetical portfolios on Friday morning.

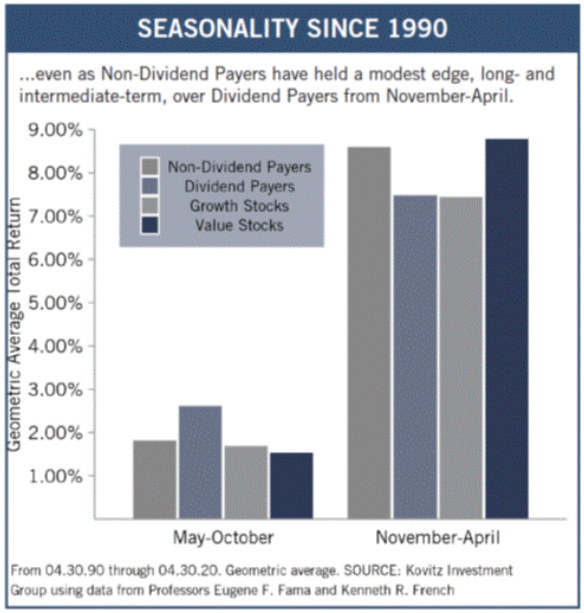
Millennium Portfolio
275 **EOG Resources** (EOG – $34.58) at $36.30
350 **New York Community Bancorp** (NYCB – $7.81) at $8.18
120 **Tapestry** (TPR – $24.32) at $24.51

PruFolio
236 **Hasbro** (HAS – $84.34) at $84.48

*****

Anything can happen as we move forward, but investors received another reminder last week that the only problem with market timing is getting the timing. Indeed, with many folks heading to the sidelines the week prior and despite uncertainty arguably remaining off the charts, with the outcome of the Presidential Election not "officially" decided until four days after the polls closed and coronavirus infections in the U.S. hitting daily records, the seasonally favorable six months of the year,…

Given the difficult market year in 2020, we are happy that the calendar has turned to the seasonally favorable six months of the year. Indeed, the period between Halloween and May Day has seen terrific performance, on average, since 1990 and going all the way back to 1929.



…got off to a most wonderful start with the Dow Jones Industrial Average soaring more than 1800 points, to post one of its best five-day periods in history.

THE PRUDENT SPECULATOR

HUGE WEEKLY RALLY IN THE DOW JONES INDUSTRIAL AVERAGE

Rare are weekly moves of more than 6.5% in the Dow Jones Industrial Average, but that market gauge soared 6.87% on a price basis over the five-days ended November 6, 2020, the 40th best showing since 1928.

Up >=6.87%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		1	0	0	0	0	0	0	0	0	3	1
Years Ending in 1		3	0	0	0	0	0	0	1	1		5
Years Ending in 2		8	0	0	0	0	2	0	0	0		10
Years Ending in 3		6	0	0	0	0	0	0	1	0		7
Years Ending in 4		2	0	0	0	2	1	0	0	0		5
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		1	0	0	0	0	0	0	0	0		1
Years Ending in 8	1	1	0	0	0	0	0	0	2	0		4
Years Ending in 9	4	1	0	0	0	0	0	0	2	0		7
Totals	5	23	0	0	0	2	3	0	6	1	3	40

From 1.13.28 through 11.06.20. Weeks of index price increases of more than 6.87%. SOURCE: Kovitz using data from Bloomberg

Down >=6.87%

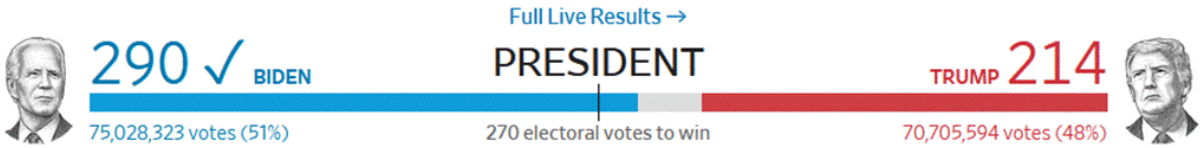
	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		3	2	0	0	0	0	0	1	0	3	6
Years Ending in 1		5	0	0	0	0	0	0	2	0		7
Years Ending in 2		10	0	0	0	0	0	0	2	0		12
Years Ending in 3		2	0	0	0	0	0	0	0	0		2
Years Ending in 4		1	0	0	0	2	0	0	0	0		3
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	1	0	0	0		1
Years Ending in 7		4	0	0	0	0	3	0	0	0		7
Years Ending in 8	1	2	0	0	0	0	0	0	2	0		5
Years Ending in 9	4	1	0	0	0	0	1	0	0	0		6
Totals	5	28	2	0	0	2	5	0	7	0	3	49

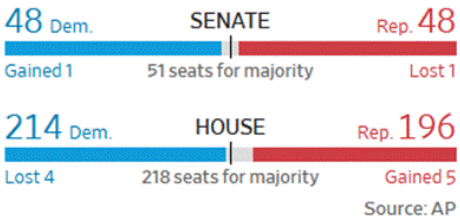
From 1.13.28 through 11.06.20. Weeks of index price decreases of more than 6.87%. SOURCE: Kovitz using data from Bloomberg

True, even though it is difficult to complain about one week returns north of 5%, Value lagged Growth by a sizable score as the pollsters again were quite a bit off in their election predictions and investors were reversing recent trades that evidently had been pricing in sizable infrastructure spending and major additional Washington economic stimulus that was expected to quickly occur if there was a Democratic sweep of the White House and Capitol Hill. Of course, nine decades of market history show that inexpensive stocks have performed very well with a “D” in the Oval Office, no matter the composition of Congress.

THE PRUDENT SPECULATOR

WASHINGTON AND EQUITY MARKET RETURNS





While it took four extra days to officially declare the winner of the White House and control of the Senate appears likely to come down to two run-off elections in Georgia, a "D" in the Oval Office has been positive for equities.

PARTIES IN POWER & ANNUALIZED RETURNS

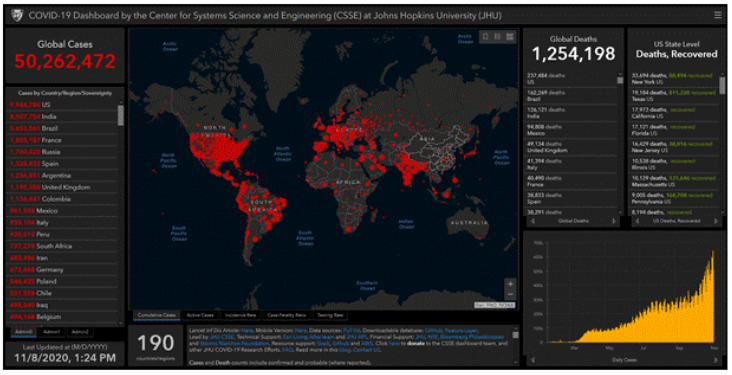
Conceding that there are not a lot of data points from which to draw grand conclusions, stocks seem to like the letter D better than R.

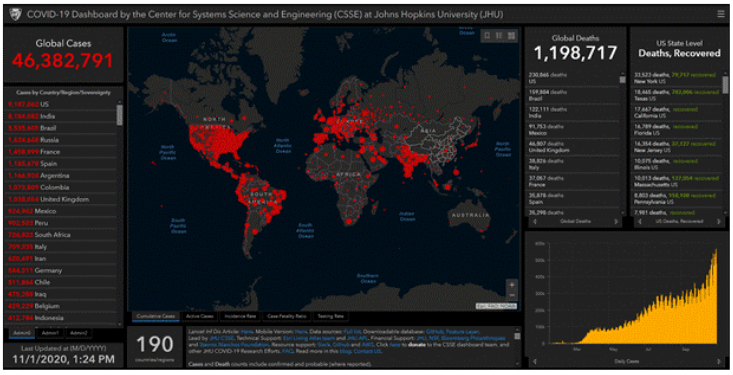
Pres Pty	Con Pty	Div Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
D	R	14.8%	10.1%	15.6%	9.9%	15.0%	10.4%
D	D	14.1%	20.7%	20.6%	16.5%	12.9%	24.0%
D	S	15.3%	15.3%	14.5%	14.9%	15.6%	14.3%
R	R	-2.2%	-7.7%	-2.4%	-4.2%	-2.0%	-4.9%
R	D	9.8%	2.2%	10.7%	6.7%	9.5%	6.4%
R	S	6.7%	-3.5%	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

To be sure, the fallout from COVID-19 has not helped many Value stocks this year, and news out last week on the health front was hardly encouraging,…

COVID-19 GLOBAL SPREAD





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

With access to testing higher, the weather having turned colder and folks not as careful in month eight or nine of the pandemic as they were back in the spring, there was a jump of 3.9 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 230,000 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 weekly increase in the fatality count rose by more than 55,000 from the 46,000 range the week prior, though the "confirmed case" mortality rate continues to decrease.

…while *The Wall Street Journal* stated yesterday: "The U.S. reported more than 127,000 new coronavirus cases Saturday, according to Johns Hopkins University data. More than 1,000 new deaths were recorded in the U.S., and the number of hospitalizations was nearly 56,000."

Of course, progress continues to be made on COVID-19 therapeutics and vaccines, so we do expect virus developments to eventually turn more positive. We think this will be a positive catalyst for the kinds of stocks that we have long favored, while we note that, the U.S. economy has held up quite well, all things considered. Jerome H. Powell pointed out last week…

Since the beginning of the pandemic, we have taken forceful actions to provide relief and stability, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy. Today, my colleagues on the Federal Open Market Committee and I reaffirmed our commitment to support the economy in this challenging time. Economic activity has continued to recover from its depressed second-quarter level. The reopening of the economy led to a rapid rebound in activity, and real GDP rose at an annual rate of 33% in the third quarter. In recent months, however, the pace of improvement has moderated. Household spending on goods, especially durable goods, has been strong and has moved above its pre-pandemic level. In contrast, spending on services remains low, largely due to ongoing weakness in sectors that typically require people to gather closely, including travel and hospitality. The overall rebound

in household spending owes in part to federal stimulus payments and expanded unemployment benefits, which provided essential support to many families and individuals. The housing sector has fully recovered from the downturn, supported in part by low mortgage interest rates. Business investment has also picked up. Even so, overall economic activity remains well below its level before the pandemic and the path ahead remains highly uncertain.

…as the Federal Reserve Chair and his colleagues at the Federal Open Market Committee again left their target for the Federal Funds rate at a range of 0% to 0.25% and pledged to remain highly accommodative even if inflation moderately exceeds the FOMC's 2% long-term objective.

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FOMC STATEMENT: 11.5.20

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

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0% to ¼% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Happily, the latest economic numbers out last week were pretty good, be they on the health of the manufacturing sector,…

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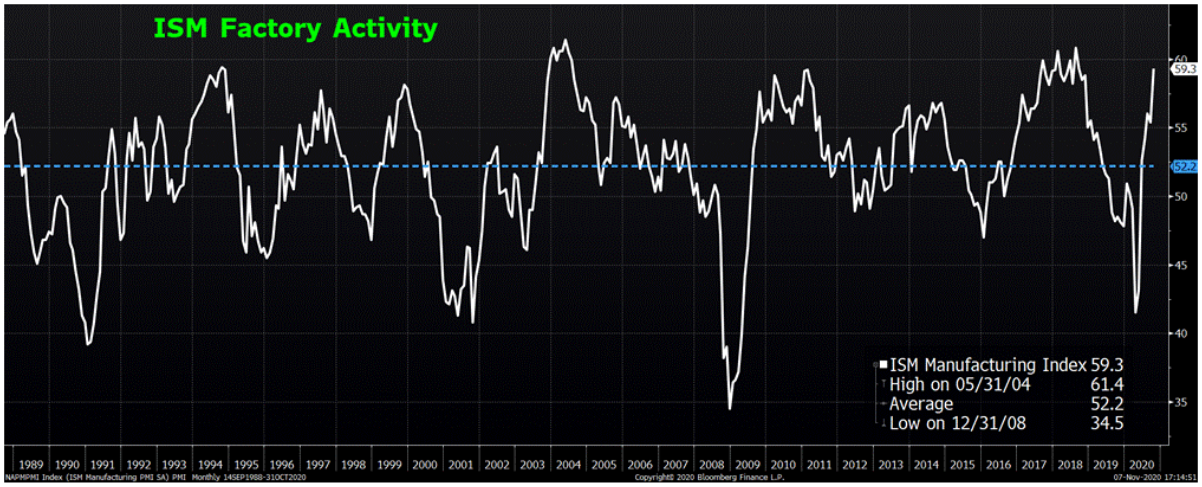
ISM MANUFACTURING VERY HEALTHY: 4.8% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector jumped to a much-better-than-expected 59.3 in October, far above the 11-year-low of 41.5 set six months prior and one of the best readings in the history of the gauge, with the Institute for Supply Management stating, "The past relationship between the PMI and the overall economy... corresponds to a 4.8% increase in real gross domestic product (GDP) on an annualized basis."

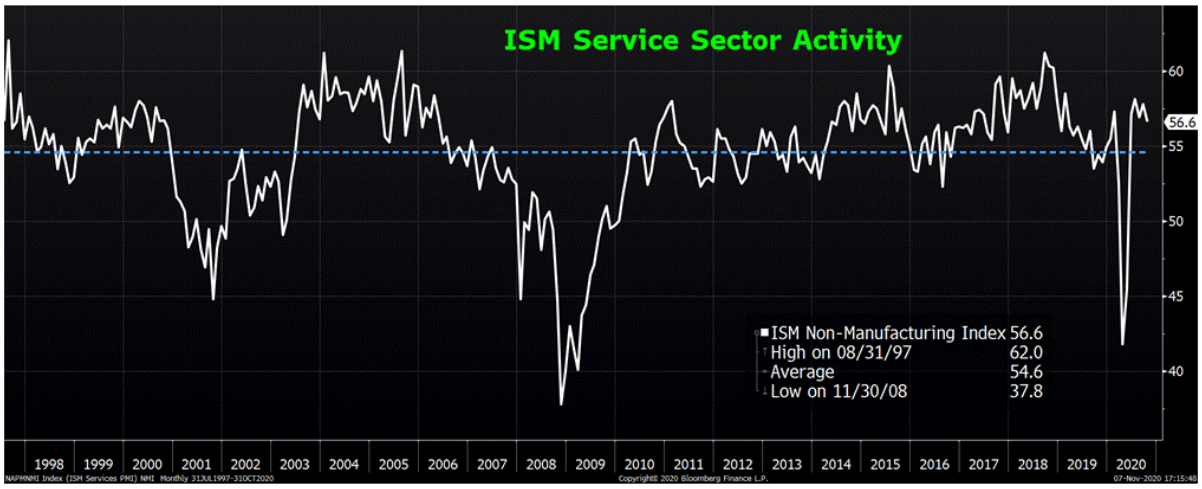


…and the service sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING RETREATS: 2.7% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector pulled back modestly to a weaker-than-expected 56.6 in October, down from 57.8 in September. The tally was still well above average and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.7% increase in real gross domestic product (GDP) on an annualized basis."



…factory orders and auto sales,…

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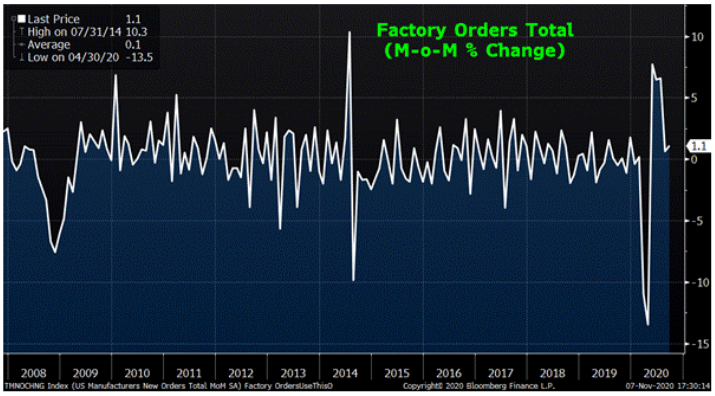
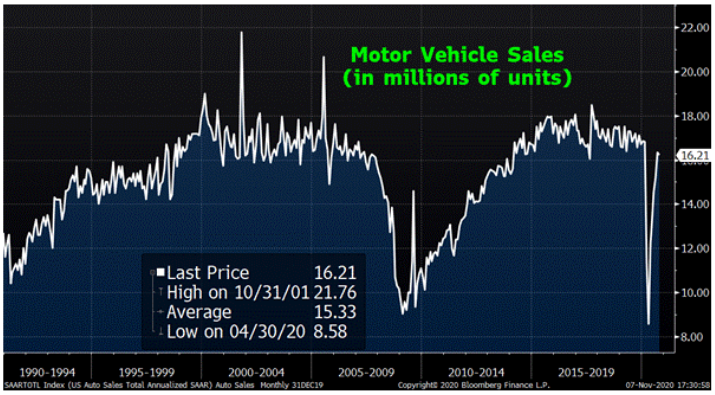
SOLID ECONOMIC NUMBERS





Continuing the bounce back in the manufacturing sector after coronavirus-related shutdowns, factory orders for September increased for a fifth straight month, rising by a stronger-than-expected 1.1%. Also, consumers went car shopping in October, with the seasonally adjusted annualized rate for light vehicles sold estimated at 16.21 million units, according to Wards Intelligence, nicely above the 15.3 million average over the past three decades.

…and the jobs picture,…

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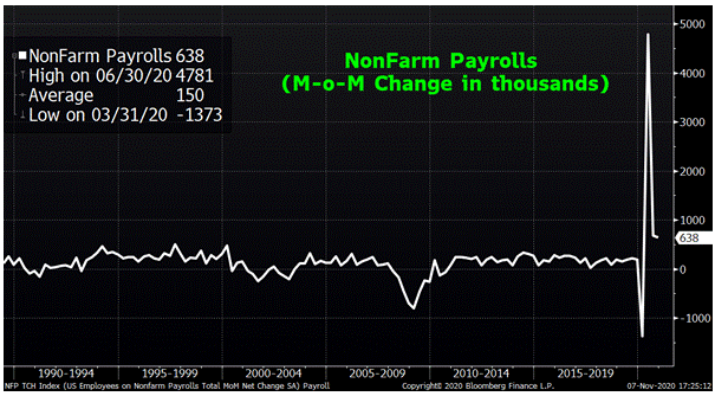
MUCH-BETTER-THAN-EXPECTED LABOR REPORT



Economists were looking for a gain of 530,000 payrolls, so the increase of 638,000 in October topped expectations, though a big gain in hiring for bars and restaurants could be reversed in the months ahead as COVID-19 cases have spiked. There are still millions out of work, but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 4.5% on a year-over-year basis.

…with the unemployment rate surprising most market watchers by falling below 7%.

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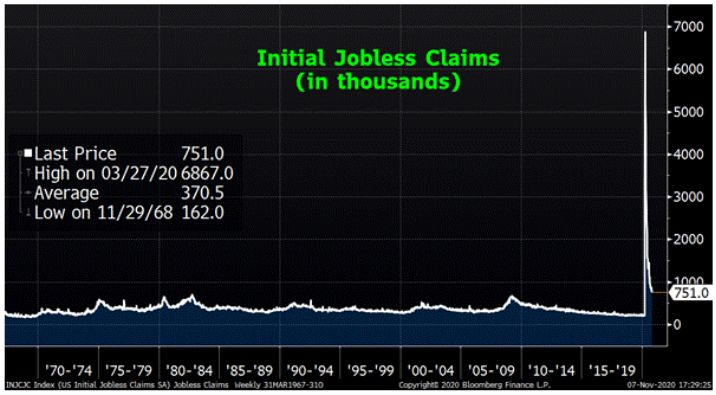
LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW STRONG IMPROVEMENT



While there is still some noise in the calculations, the jobless rate for October came in much better than expected at 6.9%, continuing to improve from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits declined modestly to 751,000, a bit larger figure than projected, while the total for the last 33 COVID-19-impacted weeks rose to more than 66 million.

Obviously, lots of folks remain out of work, so happy days are hardly here again, while estimates for Q4 growth are not exactly robust,…

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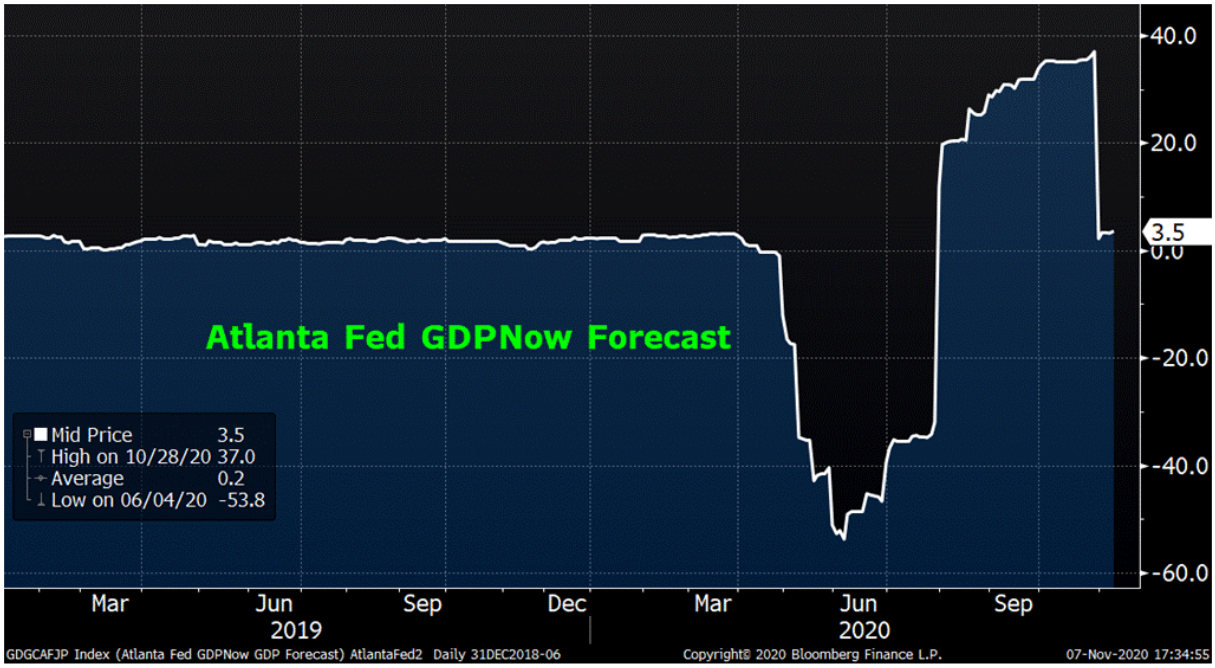
MODEST U.S. GDP GROWTH EXPECTED IN Q4

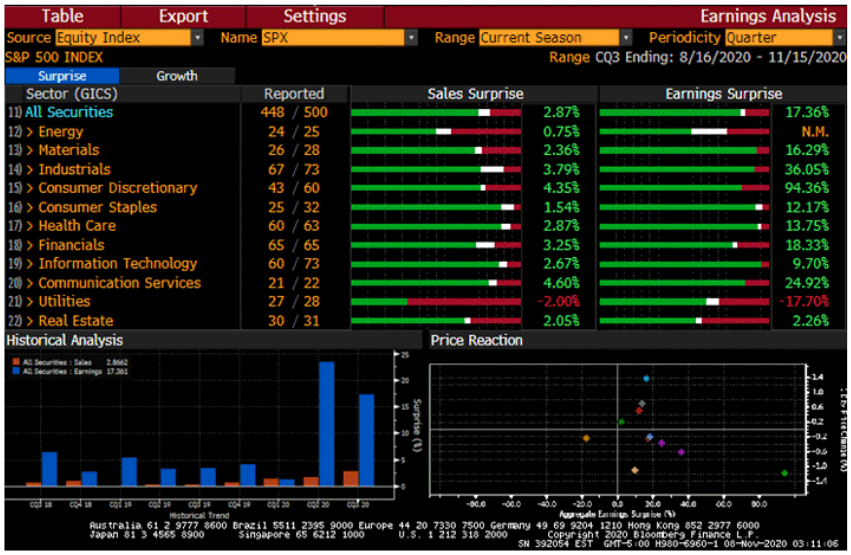
While the quarter just completed saw a massive economic expansion, following an epic contraction in Q2, the Atlanta Fed is now projecting a very modest 3.5% increase in GDP in Q4 GDP on an annualized basis.



…but Corporate America has adapted well to the current environment, with corporate profits exceeding consensus forecasts by a wide margin in Q3,…

EPS PLUNGE IN 2020 BUT REBOUND IN 2021

Q3 earnings reporting season has been 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	$44.62	$165.36
9/30/2021	$43.24	$157.21
6/30/2021	$40.11	$149.09
3/31/2021	$37.39	$135.77
12/31/2020	$36.47	$117.88
9/30/2020	$35.12	$120.59
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 11.05.20

…and a favorable outlook for 2021 suggesting that dividend payouts are likely to continue their long-term upward trend,…

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, as we are seeing today in the wake of COVID-19 and the Great Lockdown, but the historical data show that Corporate America has a long history of raising payouts. In fact, per share dividends for the S&P 500 are even likely to be higher this year.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2020 (as of 10.30.20)	227	9	25	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$61.62
2020 (Est.)	$59.57
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73

Source: Bloomberg. As of 11.06.20

…which we think makes stocks extraordinarily compelling from an income perspective in an environment where yields are microscopic on competing investments.

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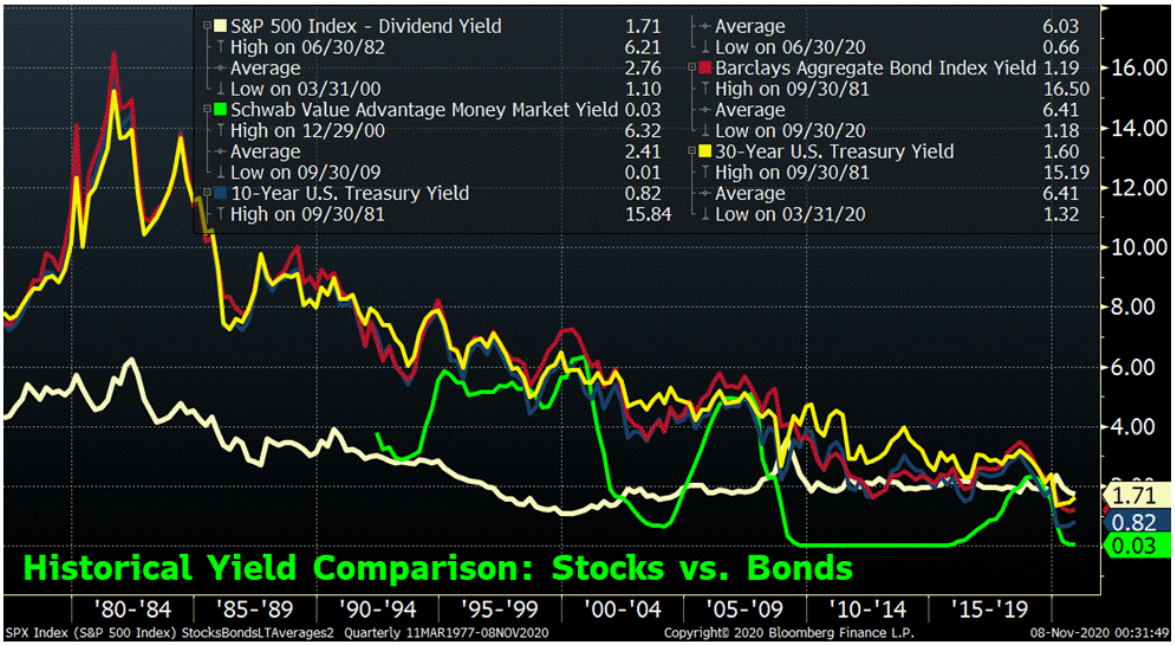
EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.71%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than the Barclays Aggregate Bond Index and more than 50 times the yield of a "generous" Money Market Fund!**



Our optimism for the prospects of our broadly diversified portfolios of what we believe to be undervalued stocks notwithstanding, we remain perplexed, but very pleased from a contrarian perspective, that there is only lukewarm enthusiasm being shown toward equities and that there is a mountain of cash pouring into bonds…

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STILL LITTLE ENTHUSIASM FOR U.S. STOCKS

Folks on Main Street became a bit more optimistic last week, as the latest AAII Sentiment Survey saw the number of Bulls rise 2.7 percentage points to the historical average, while the number of Bears stands 1.0 points above normal.

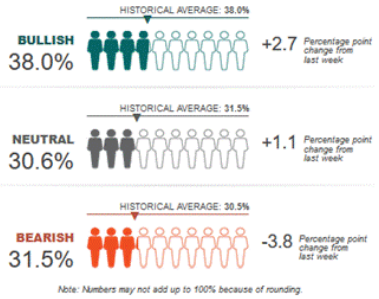
Seemingly just in time to miss out on one of the best weeks in stock market history, the exodus from domestic equities picked up steam during the last week of October, as investors continued to pile into bonds, per the latest data on mutual and exchange traded fund flows from the Investment Company Institute.

AAII Investor Sentiment Survey

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

Survey Results for Week Ending 11/4/2020

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



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

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

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	10/28/2020	10/21/2020	10/14/2020	10/7/2020	9/30/2020
Total Equity	-27,062	-10,844	-17,598	-15,578	-11,807
Domestic	-15,562	-9,727	-7,202	-16,439	-880
World	-11,500	-1,118	-10,396	860	-10,927
Hybrid	-2,102	-680	-1,003	-2,544	-2,092
Total Bond	8,534	15,587	20,821	25,021	4,410
Taxable	7,314	13,387	19,392	22,542	3,395
Municipal	1,220	2,200	1,428	2,479	1,015
Commodities	-675	-1,104	840	668	187
Total	-21,305	2,959	3,060	7,568	-9,303

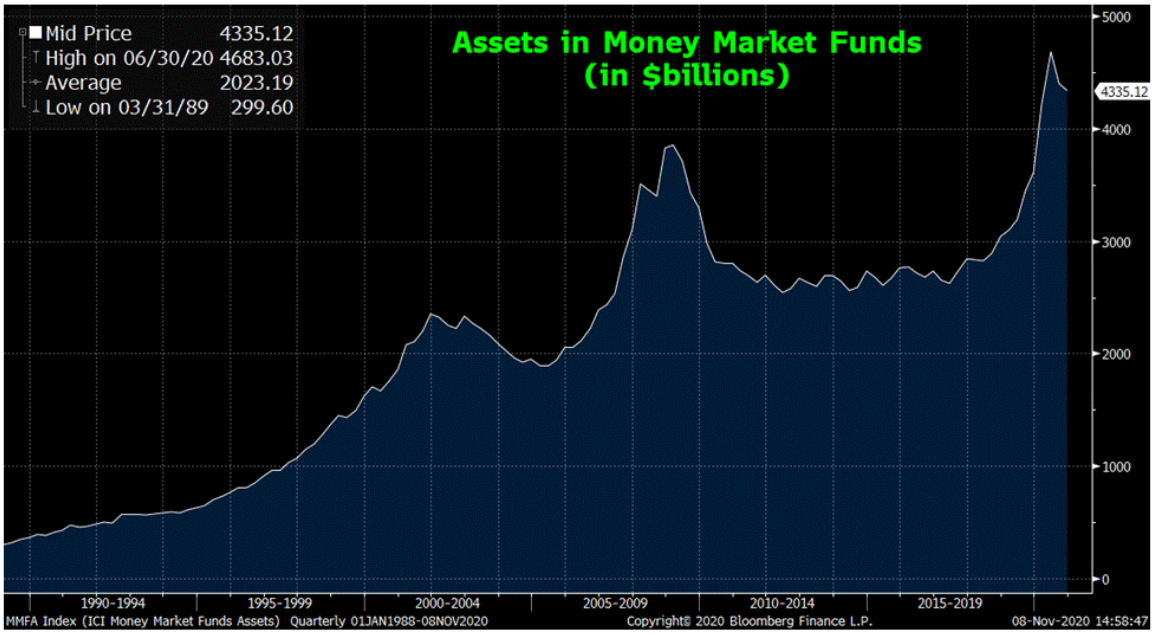
Source: Investment Company Institute

…and money markets,…

THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have never been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.



…where even with the miracle of compounding it would take 177 years at the current three basis point yield (0.03%) on the popular Schwab Value Advantage fund to match the 5.44% return posted last week by the Russell 3000 Value index.

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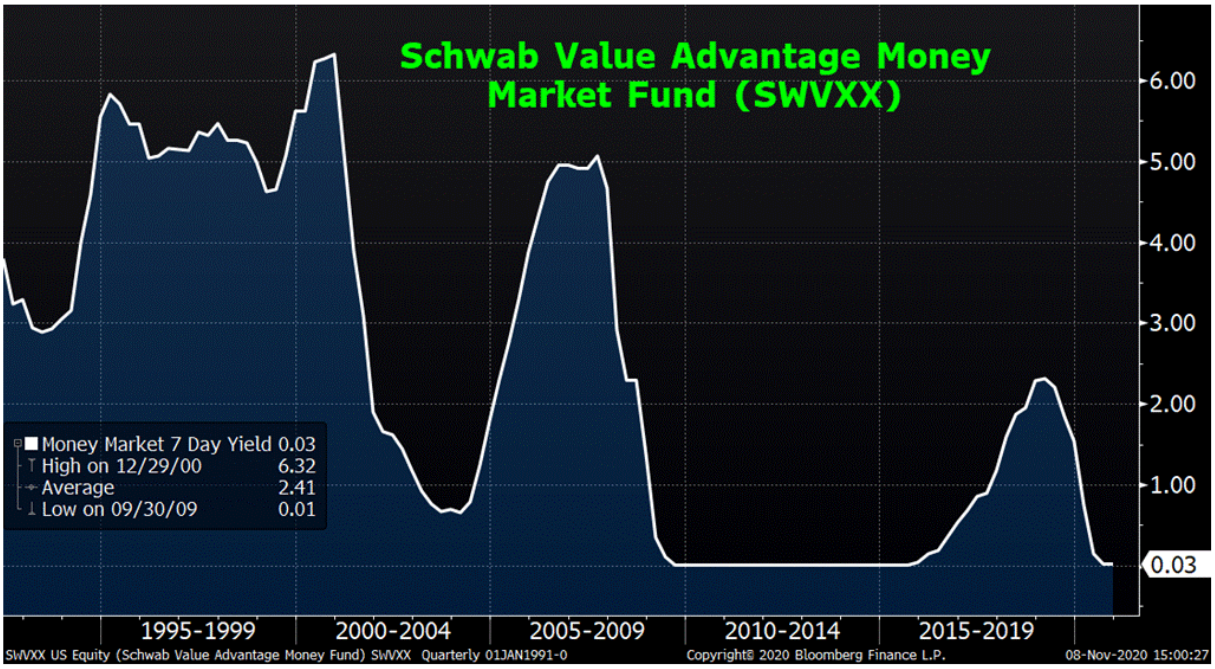
MONEY MARKET FUND YIELDS OVER TIME

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.



Stocks are a volatile asset class (as are bonds these days), but for those who share our long-term time horizon, we think that the last two weeks provide convincing evidence that time in the market trumps market timing.

Stock Updates

Jason Clark, Chris Quigley and Zach Tart look at 16 of our companies that had developments of sufficient importance to merit a valuation 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*.

Semiconductor designer **Qualcomm** (QCOM – $145.01) earned $1.45 per share in fiscal Q4 2020 (vs. $1.20 est.). QCOM had adjusted sales of $6.5 billion (vs. $5.9 billion est.). Shares climbed 13% following the announcement, pushing the YTD gain for the chip designer near 70% including dividends. The strong quarter was helped by growing 5G demand and the company has used $30 billion since 2016 to retire more than 25% of QCOM shares, which has the effect of boosting EPS.

CEO Steve Mollenkopf commented, "Over the years, we have built strong portfolios in several key areas that converge with and enable wireless systems and applications, such as multimedia, security and artificial intelligence. Our proven ability to invent and commercialize leading technologies is the foundation of how we drive long-term value for our stockholders. The early success of our 5G rollout is a great testament to our strategy of investing well in advance of these large opportunities. 5G represents the single largest opportunity in our history, creating new opportunities to extend our leadership. This will continue to play out over many years as wireless disruption will impact many industries."

On the topic of Huawei, Mr. Mollenkopf said, "Right now, we don't have a license to sell products to Huawei…And whether that, in the long run, it's an opportunity with Huawei in the event that we receive a license, or if an opportunity for our customers, we actually see that as a net positive and an expansion of TAM for QCT. And we expect that to play out as we look at demand in the handset towards 2021." To us, this seems to indicate that Mr. Mollenkopf thinks the impasse between the U.S. and Chinese governments that is preventing licensing may get worked out.

Looking ahead, CFO Akash Palkhiwala added, "We are forecasting strong earnings with revenues of $7.8 billion to $8.6 billion and non-GAAP EPS of $1.95 to $2.15, a year-over-year increase of 62% and 107%, respectively, at the midpoint. In QTL, we are estimating revenues of $1.6 billion to $1.8 billion, and EBIT margin of 74% to 78%, reflecting a sequential increase due to flagship handset launches and holiday seasonality. In QCT, we estimate revenues of $6.2 billion to $6.8 billion, up 80% year-over-year at the midpoint, driven by growth across handsets, RF front-end, automotive and IoT. We expect QCT EBT margins to be between 25% and 27%, reflecting an EBT increase of $1.2 billion versus the year ago period."

Qualcomm's valuation is no longer as inexpensive as it once was, but our proprietary valuation score remains attractive compared to its peers. We think that the company deserves a higher multiple than the historical average might indicate due to the drastic reduction in litigation and tremendous global 5G demand. The company sports a forward P/E ratio around 21, with the figure falling to 18 in fiscal 2023. EPS is projected to grow from $4.19 in fiscal 2020 to more than $8.00 in fiscal 2023. QCOM shares yield 1.8%. Our Target Price has been increased to $157.

Shares of stellar-2020-performer **Albemarle** (ALB – $112.22) rocketed more than 20% last week as equity markets rallied and the lithium and other specialty chemical producer reported its Q3 results. Revenue of $747 million modestly outpaced expectations of $736 million, while adjusted EPS of $1.09 was more than 42% ahead of the consensus analyst estimate. Despite a solid quarter that beat expectations, all three of the company's business segments had revenue fall below the same period in 2019 as the COVID-19 pandemic continued to impact operations globally.

CEO Kent Masters commented, "Albemarle reported another solid quarter with Q3 2020 net sales in the upper end of our outlook range and adjusted EBITDA exceeding outlook. Our performance was driven by operating teams committed to running our businesses safely and efficiently in the face of pandemic-related economic weakness, and to our successful sustainable

cost savings initiative. We now expect to realize approximately $80 million of cost savings this year and to reach an annual savings rate of $120 million or more by the end of 2021. We expect these savings to represent a first wave of ongoing operational improvements that will reap notable benefits for the company."

We continue to think that over the long term ALB will benefit from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. While there had been some recent negative headwinds after Tesla said it would work to source its own lithium, Elon Musk & Co. are not the only game in town and global production of EVs will continue to expand. In addition, lithium is used in backup and storage batteries for the power grid, so we believe there will be great demand growth in this arena. Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, ALB generates steady cash flows from its refining catalyst business. While shares have been flying higher, we think there is some more momentum to ride, but we are keeping a close eye as we monitor developments and we may ultimately decide to trim our holdings or exit them all together. Our Target Price for ALB has been boosted to $124.

Eaton Corp PLC (ETN- $109.96) released Q3 results that beat analyst expectations on both the top and bottom lines. Shares were whipsawed mid-week before rallying to close more than 6.6% higher for the full trading week. The power management firm earned $1.18 per share on revenue of $4.53 billion, an improvement sequentially, though lower than the year-ago quarter. Operating margins in the quarter were 18.5%, representing strong performance in light of the impact of the pandemic on sales across the firm's end markets. The twelve-month rolling average of orders in the quarter was off 22%, driven by the downturn in commercial markets. Backlog at the end of September was down 11% compared to September 2019.

CEO Craig Arnold commented, "Our third quarter was stronger than expected, with organic sales down 9 percent, 6 percent better than the midpoint of our guidance range and up 16 percent over the second quarter. We are pleased with our solid results despite the impact of the COVID-19 pandemic. We repurchased $177 million of our shares in the third quarter, making our year-to-date repurchases a total of $1.5 billion. For the full year 2020, we continue to target share repurchases of between $1.7 billion and $1.9 billion."

Having sold its Automotive Fluid Conveyance business and purchased Souriau-Sunbank in 2019, Eaton continues to reshape its portfolio of businesses. Management expects to close the sale of its Hydraulics segment to Danfoss by the end of Q1 2021. Shares recently surpassed their previous high set just before COVID-19 sent markets reeling earlier this year. Now pushing the upper end of its relative trading range in recent years, ETN's valuation (22 times the 2021 earnings estimate) has our rapt attention. Nevertheless, we are fans of the strong cash flow, capital returns and overall business prospects, and we have raised our Target Price for the time being to $114. Shares yield 2.7%.

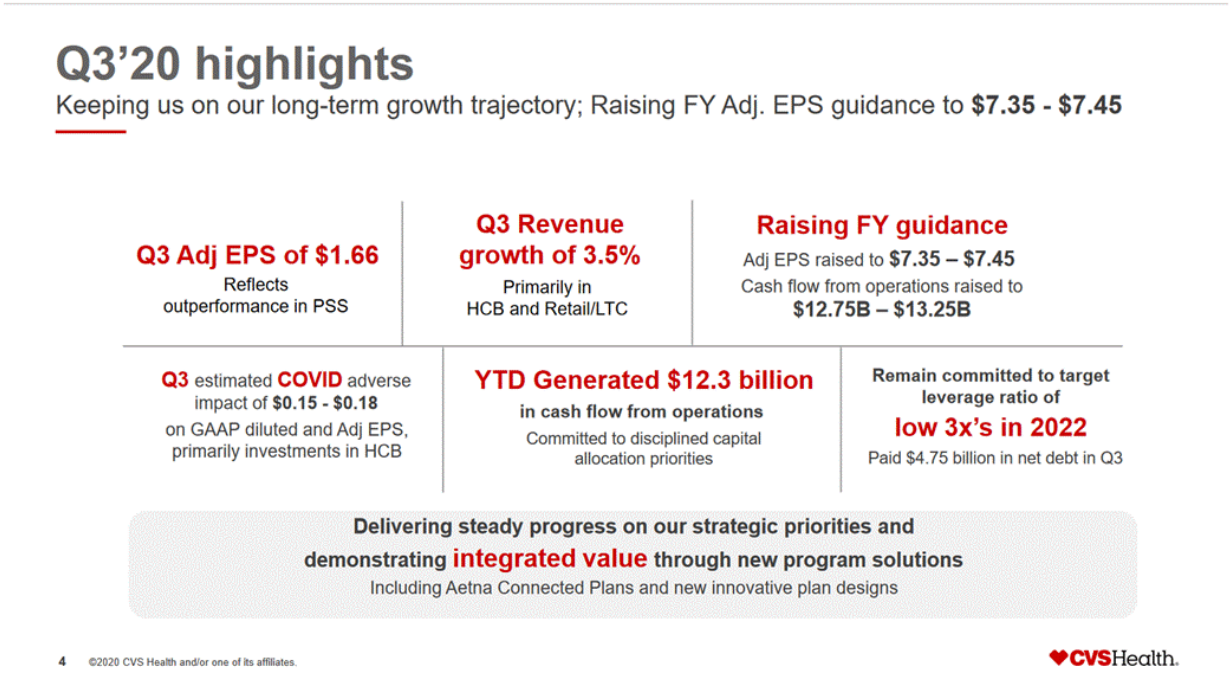
Shares of **CVS Health** (CVS – $64.95) jumped almost 16% last week after turning in another strong quarter. The integrated pharmacy healthcare provider delivered a big beat (adjusted EPS

of $1.66 vs expectations of $1.33), with all three of its segments outperforming. The company raised its adjusted EPS guidance range to $7.35 to $7.45, from $7.14 to $7.27. Additionally, CVS says it now sees cash flow from operations in the range of $12.75 billion to $13.25 billion, up from a range of $11 billion to $11.5 billion.

CEO Larry J. Merlo stated, "Our strong third quarter results demonstrate continued execution of our long-term strategic plan that is transforming the way health care is delivered. As an integrated health services provider, we're developing holistic and innovative solutions that meet the needs of our customers in the community, in the home or in the palm of their hand…Our comprehensive pandemic response shows the power of a diverse and agile enterprise. We've opened more than 4,000 COVID-19 test sites across the country since March, and have administered over six million tests. We're helping businesses and universities safely reopen and we were recently selected to administer COVID-19 vaccinations in long-term care facilities. We'll continue to play a vital role in our nation's recovery thanks to the tireless efforts of our nearly 300,000 employees."

THE PRUDENT SPECULATOR

CVS – FANTASTIC QUARTER…ESPECIALLY FOR A STOCK WITH A NTM P/E < 10



Besides the solid operations, the other major news is that the company will undergo a CEO leadership transition, with Karen Lynch, who heads up the Health Care Benefits business and is an eight-year Aetna executive, taking over for long-time CEO Mr. Merlo in the spring of 2021.

“I am incredibly proud to have had the opportunity to lead CVS Health over the past decade as we pursue our important purpose to help people on their path to better health,” said Mr. Merlo. “I am grateful to our entire CVS Health team for their dedication and hard work in helping us build a powerful, integrated health services company that will enable us to transform how health care is delivered across the country. Karen has been a key partner to me in our foundational work over the last two years, and her experience and vision will be critical in driving forward CVS Health’s journey of enhancing value for our customers as the nation’s leading health care company for years to come.”

Although the competitive landscape is challenging, COVID-19 is still impacting operations, the regulatory environment presents questions and opioid litigation remains (though it seems to be coming towards an end result), we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. We think CVS shares are very underappreciated as they trade for less than 10 times NTM adjusted earnings estimates and yield 3.1%. Our Target Price for CVS is now $110.

Shares of **McKesson** (MCK – $170.92), **Cardinal Health** (CAH – $52.64), AmerisourceBergen and **Johnson & Johnson** (JNJ – $142.25) rose last week after it was reported that the companies were nearing a $26 billion deal with state and local governments to settle opioid epidemic-related lawsuits. According to the CDC, 232,000 Americans died from overdoses of prescription opioids between 1999 and 2018. The settlement includes $2 billion for lawyer fees related to suits around the nation but is primarily earmarked for treatment and prevention programs. The deal still needs to be approved by states and local governments, else the companies still could be on the hook in future lawsuits.

Based on filings, JNJ could owe $5 billion, while McKesson could owe $8 billion. At present, the figures are not set in stone and it is unclear what portions AmerisourceBergen and Cardinal will have to contribute. We think that the settlement is a step in the right direction to help rectify the damage that opioids have caused. We estimate that the payouts will not be made in a lump sum and will be released over a period of years. This would depress earnings over a longer period of time, but not put the businesses in a position where they may need to close shop.

McKesson and Cardinal also reported quarterly earnings last week, adding to the upward share price movement. McKesson earned $4.80 in fiscal Q2 2021, compared to the $3.86 analyst consensus estimate. Revenue came in at $60.8 billion, approximately $1.5 billion ahead of the consensus. Management said that volume increased, particularly in new business lines such as COVID-19 tests and PPE (personal protective equipment). MCK also raised full-year EPS guidance to a range of $16.00 and $16.50, versus the earlier range of $14.70 to $15.50.

Cardinal reported $1.51 for fiscal Q1 2021 EPS, versus the $1.15 consensus estimate and the $39 billion in revenue was nearly $2 billion better than the same period last year. Sales volume grew primarily from existing customers and the gross margin expanded 2% thanks to expense management and strong performance in the Medical segment. As with McKesson, Cardinal also saw heavy demand for PPE, which had higher procurement costs due to supply chain constraints. Management said it expects to be able to pass the cost increases on to customers with the goal of “maintaining mutual margin dollars.” CAH also bumped up its EPS guidance for fiscal 2021.

The company now expects to earn between $5.65 and $5.95 per share this year, compared to the previous estimated range of $5.25 and $5.65.

MCK shares trade for 10 times forward earnings and yield 1%. Our Target Price is now $208. CAH shares trade for less than 10 times earnings and yield 3.7%. Our Target Price is now $81. JNJ shares trade for 17 times forward earnings and yield 2.8%. Our Target Price is $176.

Shareholders of neurologically focused biotechnology concern **Biogen** (BIIB – $328.90) are likely recovering from a bout of whiplash due to the latest news regarding the firm's Alzheimer's treatment candidate aducanumab. Shares surged over 40% in trading on Wednesday as it appeared that FDA regulators had given a positive assessment of the drug in a 343-page briefing document put together for review by panel members of an Advisory Committee, which was scheduled to vote on Friday.

These studies: 301 and 302 (also known as ENGAGE and EMERGE) were discontinued early by Biogen when a futility analysis suggested aducanumab wasn't working. The studies were revived, however, when a post-hoc analysis using modeling and simulation methodologies was used to "virtually complete" the studies. In the end, 301 was determined to be negative and 302 to be positive.

Further into the briefing document was a much more negative review by the FDA's statistical observer. This section, starting on page 247, contained remarks such as, "Inconsistency on many levels summarizes the final clinical efficacy data from these trials," "It is not justifiable to search 301 for patients who are most similar to 302," and "Because that may have selection bias and gives the impression that 302 is right and 301 is wrong, for which there is no justification not relying on post-hoc analyses."

Shares were halted for trading Friday as the Advisory Committee appeared to side with the statistical observer, voting a resounding "No" on all questions related to the 301 and 302 studies. The stock never reopened for trading, but we expect a big sell off when trading resumes, even as it would not be without precedent for the FDA to go its own way and ultimately approve aducanumab. BIIB CEO Michel Vounatsos stated, "Biogen thanks the many patients and advocates who shared their personal thoughts and experience at today's Advisory Committee meeting, reflecting the significant unmet need for a treatment for Alzheimer's. We appreciated the opportunity to share our data with the Advisory Committee, and we will continue to work with the FDA as it completes its review of our application. FDA Advisory Committees provide non-binding recommendations for consideration by the FDA. With the opinions expressed at the Advisory Committee and the data presented, the FDA will continue the review process with a decision on whether to approve the aducanumab Biologics License Application by March 7, 2021."

No doubt, Biogen investors will be on the edge of their seats over the next four months as an approval of aducanumab would be a home run for the company, given immense demand to treat Alzheimer's. We have trimmed our Target Price to $337, though, as BIIB still faces looming pressure from generics in the coming years, or sooner given the court victory earlier this year for Mylan Inc. related to Biogen's blockbuster Multiple Sclerosis drug Tecfidera, and potential

competition from Novartis for its spinal muscular atrophy treatment Spinraza. No doubt, Biogen investors must be braced for volatility, but at where we think the stock may be trading this week, we still think the potential upside dwarfs the downside, as the company is expected to earn at least $25.00 per share over the next two years and there are other potential winners in the drug pipeline. Nevertheless, we always reserve the right to change our mind favorably or unfavorably as new information is received.

NortonLifeLock (NLOK – $21.13), a cybersecurity firm, tumbled more than 7% on Friday, despite beating analyst EPS and sales estimates. In fiscal Q2 2021, NLOK earned $0.36 per share (vs. $0.33 est.) and had $626 million of revenue (vs. $620 million est.). In the upcoming quarter, NLOK expects to earn between $0.36 and $0.38 per share with revenue between $625 million and $635 million. The share decline was confounding given the strength of NLOK's quarter, though a few analysts lowered their 12-month target prices.

CEO Vincent Pilette commented, "Our direct-to-consumer business, which represents 90% of our business, was up 5% in Q2, with broad-based growth across the entire portfolio. We now have over half of our installed base on Norton 360, and we will continue to release new products, such as Dark Web Monitoring or Privacy Monitor Assistant, either as add-on features or stand-alone products…With less than 30% of our revenues outside North America, we remain relatively underpenetrated in many countries offering us an opportunity to broaden our reach."

Mr. Pilette continued, "Growth and innovation are our primary focuses. But it's worth noting that as of the end of August, we had removed all stranded costs related to the sales of our enterprise business. This was 4 months ahead of plan. I want to thank our transition team for making it possible and we're now building operational execution into our DNA. And with the transition behind us, we have reaffirmed our partnership with Broadcom by licensing the Symantec enterprise software and security engines as well as continued sharing threat telemetry and analytics. We are very well positioned for the future."

We believe that Norton's prospects in data security remain relatively bright, and we continued to be impressed with management's ability to drive down operating costs and wrap up the Enterprise sale ahead of schedule during the pandemic. We think that NLOK has plenty of room to grow and we believe that cybercrime is showing no signs of abating. Our Target Price for NLOK remains $27.

Shares of **General Motors** (GM – $37.47) gained more than 8% last week, thanks in large part to the reporting of a terrific third quarter. The automaker earned $2.83 per share, nearly double the analyst consensus estimate, and had sales north of $35 billion, which roughly matched the same period a year ago and was a big improvement from the $17 billion of sales the prior quarter. The company did not reissue guidance, which it withdrew in March due to COVID-19, but analysts expect EPS of $1.72 in the upcoming quarter and $5.39 in 2021.

CEO Mary Barra said, "Our Q3 results were driven primarily by the success of our safety protocols around the world; a stronger and faster-than-expected industry recovery in the U.S. and China; strong U.S. retail sales and market share, especially for pickups, with higher pricing and disciplined incentives; and the successful launch of our all-new full-size Chevrolet, GMC and

Cadillac SUVs. We also clearly benefited from austerity measures we implemented in response to the pandemic and the ongoing transformational-related cost reductions."

Ms. Barra closed by adding, "If our current recovery continues, we anticipate reinstating a dividend at the appropriate level that balances various capital allocation priorities, including our investments to accelerate EV. We know this is a high priority for our shareholders, and we're looking at timing around mid-2021. And finally, I want to welcome Paul Jacobson, our new CFO, who is joining us from Delta, on December 1. Paul will be a great addition to the GM senior team."

A partnership or investment with embattled electric truck-maker (allegedly) Nikola has not yet closed and Ms. Barra said the company will offer an update at a later date. Nikola shares have been all over the map, rising on the partnership news and then plunging on fraud speculation (which seemed to have some good points). At present, we aren't baking a partnership with the company into our GM valuation, but we think that a venture with Nikola or similar electric truck marker would spread out the project risk and still offer plenty of upside to shareholders. In our view, GM remains in decent financial shape and shares trade at just 6 times next year's estimated earnings. Our Target Price for GM has been hiked to $50.

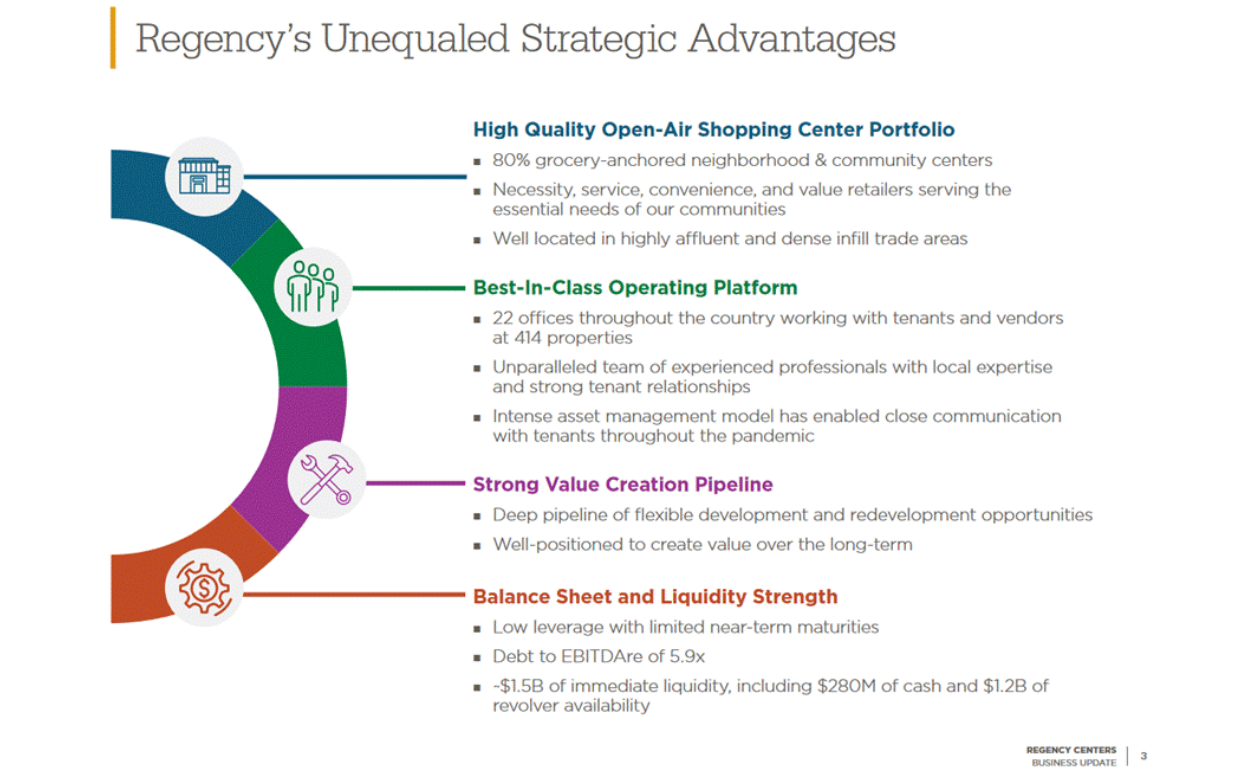
Staying in the motor vehicle industry, **Honda Motor** (HMC – $26.36) reported earnings of $1.31 per share in fiscal Q2 2021, ahead of the analyst consensus estimate of $0.60. The company had $34.4 billion of revenue, compared to the $31.8 billion analysts were expecting. With vehicle sales recovering in China and in the U.S., Honda raised its guidance for the full fiscal year and now expects revenue near $126 billion (previously $121 billion) and earnings per share of $2.18 (previously $0.90). Shares jumped 6% on the news.

Honda maintains a strong balance sheet compared to its peers, sporting $28 billion of cash and $72 billion of debt, with plenty of room available on revolving loans should the company need them. The company's weighted average coupon is 1.6% and the weighted average maturity is 2.4 years. Instead of competing in every category, Honda remains focused on controlling costs through fewer trim offerings and common size vehicle platforms. HMC shares trade at 56% of book value and the net dividend yield stands around 2.5%. We continue to like the geographically diverse revenue stream, exposure to emerging markets (China and India) and prudent financial position. Our Target Price has been lifted to $34.

Shares of **Regency Centers** (REG – $34.05) sank 6% on Friday after Q3 financial results missed analyst estimates. The retail-focused REIT produced $0.60 (vs. $0.76 est.) of funds from operations per share on revenue of $242.9 million. At the end of October, 97% of tenants were open for business, while 86% of Q3 pro-rata base rents were collected, which was better than the 72% collected in Q2. Regency completed two redevelopment projects that cost $9.3 million in Q3, with $238 million in process and an estimated of $102.3 million remaining to complete. Management states that the company is evaluating each pipeline project for scope, cost, tenancy, timing and return on investment.

"Regency's dedicated teams around the country have remained committed to helping our tenants operate safely and successfully," said CEO Lisa Palmer. "Although there continues to be uncertainty in the current environment, we are encouraged by the increase in retailer confidence and continued resilience of our tenants and shoppers. This is evidenced not only by our significant progress on rent collections and deferral agreements, but also by increased leasing activity over the last quarter."

Ms. Palmer added, "While we certainly can't control the hand we've all been dealt, what we can control is that Regency came into this pandemic as prepared as we possibly could have been due to our unique combination of unequaled strategic advantages, which include, and have never been more critical: our geographically diverse portfolio of high-quality, grocery-anchored, open air centers that serve as the backbone of our communities with a focus on necessity, service, convenience and value; our sector-leading balance sheet and liquidity position, affording us financial flexibility; our strong but flexible value-creating development pipeline that has allowed us to quickly adapt to the evolving retail landscape; and finally, our people. It's times like these when the value of experience and relationships become most apparent and important."



COVID-19 still presents challenges, especially going into winter, but we like REG's current liquidity position. We are relieved that rent collection trends are improving, while longer term, we continue to like that Regency's national portfolio of shopping centers is primarily anchored by productive grocers located in affluent and attractive more-populated metro areas. Despite having grocery store tenants and other service tenants that drive foot traffic to its centers (fitness centers, restaurants, etc.), online shopping continues to be a threat to REG and its competitors' tenants, but all in all, we think through a long-term lens there is material upside in REG shares relative to the current price. The dividend yield is now 7.0% and our Target Price for REG presently stands at $64.

Shares of **Mosaic** (MOS – $19.19 slumped nearly 9% last week even as the fertilizer and agricultural chemical producer turned in Q3 EPS of $0.23, which was better than the $0.17 expected by analysts. Revenue improved sequentially to $2.38 billion driven by sales in the Fertilizantes segment, although the quarterly figure was lower than the same period a year ago, as Phosphate and Potash volumes lagged. Cost reductions contributed to a 27% increase in gross profits year-over-year, despite continued pricing declines and modest volume gains. Having nearly tripled in price since early spring, shares were approaching break-even on the year prior to the report, but analysts were evidently concerned about phosphate pricing going forward.

“Mosaic’s results for the third quarter continue to reflect the positive impact of our transformation work, which drove earnings growth despite year-over-year realized price declines,” said CEO Joc O’Rourke. “Prices and demand for our products are recovering in 2020, positioning us to benefit from strong price realization in the fourth quarter in addition to our improved cost profile. With improving grain and oil seed prices and limited inventories of fertilizer in all channels, we expect strong business conditions to continue into 2021.”

While we respect that a lot of patience has been required to stay invested in the crop nutrients space, we are delighted that several years of work to lower production costs are starting to bear fruit. Despite operating in a volatile industry, the balance sheet remains in solid shape, and Mosaic’s products continue to be a vital element of plant development necessary to feed the world’s growing population. Though not as inexpensive as they were six months ago, shares trade for a reasonable 14 times the 2021 analyst earnings estimate and yield a modest 1.2%. We’ve fine tuned our Target Price to $23.

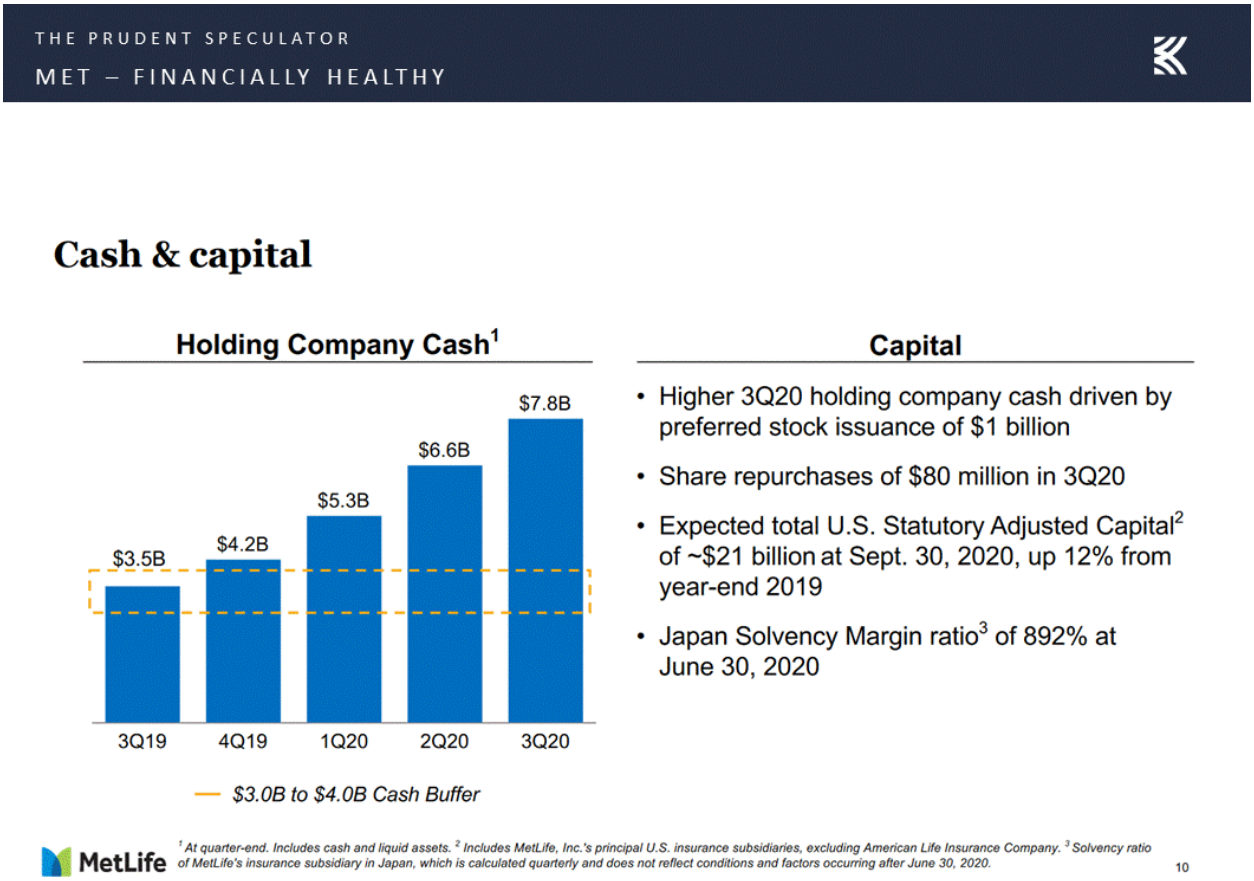
Nutrien Ltd (NTR – $39.80) shares slid 2% last week, even as the crop nutrients competitor posted $0.23 of earnings per share, almost double the consensus analyst estimate. Revenue came in at $4.0 billion, just short of projections. The quarter saw strong demand lead to record volumes and high operational efficiency, offsetting broadly lower average realized prices. The retail business was solid with sales growth of a decent 3.6%, while gross margins expanded an impressive 180 basis points.

Management expects a robust fall application season to support retail demand in the U.S., pushing inventories lower toward the end of 2020. It also expects strong demand in China and India due to pricing support and seasonal effects. “Nutrien delivered another quarter of solid operating results with strong fertilizer sales volumes and exceptional growth of orders through our digital agriculture platform, surpassing $1 billion of sales. Market conditions are improving around the world with higher crop and fertilizer prices, lower expected inventories and strong demand for crop inputs as we finish the year and enter 2021,” commented Nutrien CEO Chuck Magro.

The company narrowed its 2020 adjusted net earnings guidance to $1.60 to $1.85 per share (from $1.50 to $1.90 previously) and adjusted EBITDA guidance to $3.5 billion to $3.7 billion (from $3.5 billion to $3.8 billion previously). We continue to like that Nutrien has a strong balance sheet and rich dividend (4.5% current yield). The company also has scale offered by a large retail presence with over 2,000 locations in seven countries, diversification across the three major crop nutrients and a strategy of selling directly to farmers. We continue to be constructive on the long-term global agriculture story and we think NTR is a beneficiary. Our Target Price is now $52.

Shares of **MetLife** (MET – $40.48) rose almost 7% last week as the insurer reported excellent Q3 results. For the quarter, MET announced that it realized adjusted EPS of $1.73, versus the consensus analyst estimate of $1.59. While Property and Casualty results were generally in-line during a heavy catastrophe loss quarter, Group Benefits were solidly ahead of forecasts. Better-than-expected results in Asia were partially offset by weaker-than-expected results in Latin America.

"In what continues to be a challenging environment, Metlife delivered strong financial performance in the third quarter with adjusted earnings per share growing 36% year over year," said CEO Michel Khalaf. "Variable investment income rebounded sharply, the diversity of our businesses was evident in our underwriting results, and we demonstrated strong expense discipline. We were also pleased to resume share repurchases in third quarter."



It's no secret that fixed-income investors around the globe have suffered for some time due to paltry interest rates. This has pressured reinvestment yields for insurers, particularly for those bearing long-dated risks like life insurance. Still, we believe that MET has a solid financial foundation, and we like the exposure to a diverse product mix. The firm is well-positioned as the largest life insurer in North America as measured by in-force coverage, offering financial products and services to over 90 of the Fortune 100 companies. Substantial international operations should continue to be a core driver of growth going forward. Equally important, shares change hands at less than 7 times expected NTM adjusted EPS and for 50% of book value, while the dividend yield is 4.6%. Our Target Price for MET has been raised to $75.

Shares of **Leggett & Platt** (LEG – $40.67) fell 2.5% last week as the bedding and furniture components maker reported Q3 financial results. LEG announced record Q3 adjusted EPS of

$0.80, solidly above the consensus analyst estimate of $0.73. Revenue of $1.21 billion, on the other hand, fell more than 4% short of forecasts.

CEO Karl Glassman explained, “We are pleased to deliver strong third quarter results in these uncertain times. The efforts of our employees around the world drove the outcome, and I want to thank them for their dedication, hard work and creativity. We generated quarterly record EBIT, EBITDA and EPS in third quarter. We also generated quarterly record cash flow from operations of $261 million, driven by a significant reduction in working capital. These outstanding results reflect our continued priority on operational performance and closely controlling all elements of working capital.”

Mr. Glassman continued, “Following steep declines in second quarter, we returned to year-over-year sales growth this past quarter in ECS, U.S. and European Spring, Home Furniture, Fabric Converting and Geo Components. These businesses continued to benefit from a consumer spending focus on home products. Automotive sales were roughly flat with the prior year. Challenges remain in Aerospace and Work Furniture with weak demand in these end markets expected to continue…Bedding sales were negatively impacted by extraordinary COVID-related supply chain and labor constraints in third quarter and evolving government restrictions on plant operations. We are diligently working to increase production while managing supply challenges with nonwoven fabrics and chemicals and labor shortages so that we can better meet the growing levels of bedding market demand…The Company remains well-positioned, both competitively and financially, to capitalize on long-term opportunities in our various end markets. Our enduring long-term fundamentals give us confidence in our ability to continue to create value for our shareholders.”

LEG also announced that it had more than $1.4 billion of liquidity with $245 million of cash on hand and $1.2 billion in capacity remaining under a revolving credit facility should it be needed. As far as debt goes, LEG has total borrowings of $2 billion, with no commercial paper outstanding and no significant maturities until August 2022 (when $300 million comes due).

While we know that near-term operational headwinds will remain brisk, we think the recent share-price weakness, after a solid run-up, presents an attractive long-term capital appreciation opportunity for patient investors. We like that management has a history of disciplined cash use, that the company is a leader in most of its markets, with few large competitors, and that L&P has increased its dividend for 49 consecutive years, with the yield currently above 3.9%. We also like that the housing market continues to be strong and consumers seem to be happy to renovate and upgrade their homes and durable goods within. We think that the company will return to overall growth in the next few quarters, and we note LEG has a targeted average annual revenue growth rate of between 6% and 9%. Our adjusted Target Price is $52.