Market Commentary Monday, November 23, 2020

November 23, 2020

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – Swapped CVS for WBA
Week in Review – Lousy End, But Solid Gains…For Value
Health News – Promising Vaccines vs. Skyrocketing Cases
Econ Update – Solid Numbers All Things Considered; Modest Q4 GDP Growth Likely
Sentiment – Stocks Attract Some Interest…For a Week Anyway
Dividends – Income Producing Stocks Very Attractive
25 *TPS* Bargains – Undervalued and Still Down > 15% on the Year
Stock News – Updates on PFE, KSS, WMT, LOW, FL, KLIC, TSN & TGT

Market Review

Happy Thanksgiving to all of our readers…and a little housekeeping before this week's missive.

As discussed on our *Sales Alert* on Wednesday, we waited our usual two days and then sold and bought the following on Friday for our real-money newsletter portfolio:

TPS Portfolio
Sold 376 **Walgreens Boots Alliance** (WBA – $37.53) at $37.21
Bought 190 **CVS Health** (CVS – $66.39) at $66.037

We will use the $37.21 fill price for our liquidation of 464 WBA in our hypothetical portfolio, PruFolio.

*****
While the trading week ended on a sour note, it was not a bad five days of trading…for Value-oriented strategies, with the Russell 3000 Value index advancing 0.25%, compared to a 0.73% dip in the S&P 500 and a 0.65% decline in the Dow Jones Industrial Average.

THE PRUDENT SPECULATOR

VALUE RENAISSANCE

While four months does not a trend make, it is nice to see a handsome absolute and relative rebound in undervalued stocks, especially as there is plenty of runway remaining for a return to historical norms.

Total Returns Matrix

Last Week	Since 10.31.20	Since 8.31.20	Since 7.9.20	Last 6 Months	YTD	Last 12 Months	Last 24 Months	Last 36 Months	Last 60 Months	Name
0.71	1.54	1.27	3.56	5.92	7.45	7.88	17.00	14.51	24.72	Bloomberg Barclays Global-Aggregate Bond
0.59	0.94	0.43	0.45	2.08	7.32	7.26	19.00	17.13	23.86	Bloomberg Barclays US Aggregate Bond
-0.65	10.64	3.35	14.73	20.42	4.69	7.68	25.45	33.95	85.19	Dow Jones Industrial Average
0.51	11.40	6.50	16.83	22.52	1.65	5.68	21.05	21.54	51.31	New York Stock Exchange Composite
2.10	14.79	13.19	23.85	32.26	20.15	26.29	44.24	43.73	85.13	Russell 2000 Growth
2.69	17.62	16.16	33.02	**34.44**	**-4.42**	**0.37**	**5.98**	**3.98**	**39.76**	**Russell 2000 Value**
2.38	16.15	14.62	28.18	33.38	8.28	13.76	25.07	23.78	62.95	Russell 2000
-0.30	7.96	-0.24	12.68	25.43	28.59	34.23	68.88	75.84	133.27	Russell 3000 Growth
0.25	11.94	7.92	18.60	**20.75**	**-2.77**	**0.89**	**14.38**	**17.12**	**46.92**	**Russell 3000 Value**
-0.03	9.86	3.58	15.49	23.37	13.31	17.94	40.85	45.72	87.99	Russell 3000
0.54	12.32	8.81	20.88	26.05	6.34	10.44	28.83	31.93	69.51	S&P 500 Equal Weighted
-0.73	8.94	2.01	13.55	20.75	11.95	16.60	40.01	46.03	88.25	S&P 500
-0.96	7.65	-0.55	12.24	23.24	25.84	31.15	59.49	69.38	120.05	S&P 500 Growth
-0.38	10.94	6.11	15.59	**17.22**	**-3.75**	**0.17**	**18.58**	**21.46**	**53.76**	**S&P 500 Value**
0.33	9.66	4.87	15.13	24.51	21.21	25.29	51.03	50.11	93.97	S&P 500 Pure Growth
2.00	16.89	14.45	29.91	**31.27**	**-13.79**	**-11.01**	**-1.48**	**0.36**	**28.72**	**S&P 500 Pure Value**
-0.18	12.44	4.11	26.96	28.97	0.23	4.38	7.74	24.98	66.15	Berkshire Hathaway B

As of 11.20.20. Source Kovitz using data from Bloomberg

True, a 0.25% return for the week does not sound grand, but were that figure to be repeated for each of the next 51 weeks, the annualized gain would be 13.86%, a tad better than the historical 12.7% annualized rate of return for Value stocks dating back to 1927.

THE PRUDENT SPECULATOR

VOLATILITY IS NOT UNUSUAL: 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%	111.4%	979	27	3.4	3/23/2020	11/16/2020
17.5%	66.8%	572	39	2.3	3/23/2020	11/16/2020
15.0%	66.6%	557	45	2.0	3/23/2020	11/16/2020
12.5%	44.3%	334	72	1.3	3/23/2020	11/16/2020
10.0%	34.9%	245	98	0.9	3/23/2020	11/16/2020
7.5%	23.6%	147	157	0.6	9/23/2020	11/16/2020
5.0%	14.7%	72	306	0.3	10/30/2020	11/16/2020

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	305	0.3	10/12/2020	10/30/2020

From 02.20.28 through 11.16.20. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	12.7%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.5%	18.1%
Non-Dividend Paying Stocks	9.1%	29.4%
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 09.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

Of course, while headlines on the health front were very good for the intermediate and long term, with Moderna seeing a 94.5% efficacy rate for its mRNA-1273 vaccine, and Pfizer/BioNTech submitting a formal application to the FDA for their COVID-19 vaccine,…

GOOD NEWS ON VACCINES FROM MODERNA AND PFIZER/BIONTECH

HEALTH

Moderna's Covid-19 vaccine is strongly effective, early look at data show

By MATTHEW HERPER @matthewherper and HELEN BRANSWELL @HelenBranswell / NOVEMBER 16, 2020 Reprints

RUBY WALLAU FOR STAT

Moderna's vaccine against Covid-19 is strongly effective, the company said Monday, building excitement about the potential of controlling the global pandemic.

The news comes exactly a week after results from Pfizer and BioNTech, which announced broadly similar results.

The Moderna vaccine reduced the risk of Covid-19 infection by 94.5%. There were 95 cases of infection among patients in the company's 30,000-patient study. Only five of them occurred in patients who developed Covid-19 after receiving Moderna's vaccine, mRNA-1273.

Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, admitted the preliminary data for the Moderna and the Pfizer vaccines — the only two so far to have early estimates of vaccine efficacy — are better than he had anticipated.

HEALTH

Pfizer, BioNTech submit formal application to FDA to authorize Covid-19 vaccine

By HELEN BRANSWELL @HelenBranswell / NOVEMBER 20, 2020 Reprints

SPENCER PLATT/GETTY IMAGES

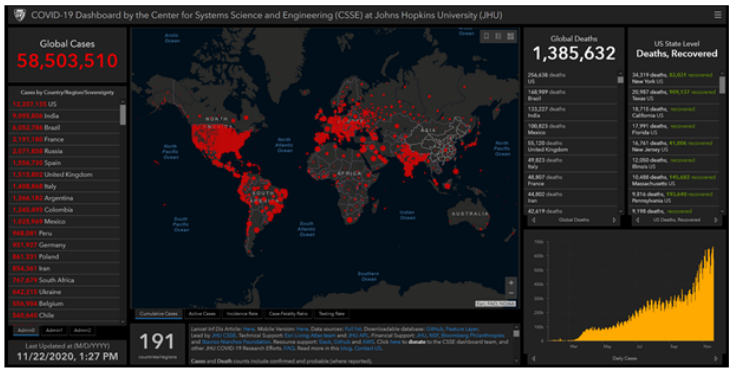
The drug maker Pfizer and its German partner BioNTech applied on Friday to the Food and Drug Administration for an emergency use authorization for their Covid-19 vaccine, a watershed moment in the effort to curb the global pandemic.

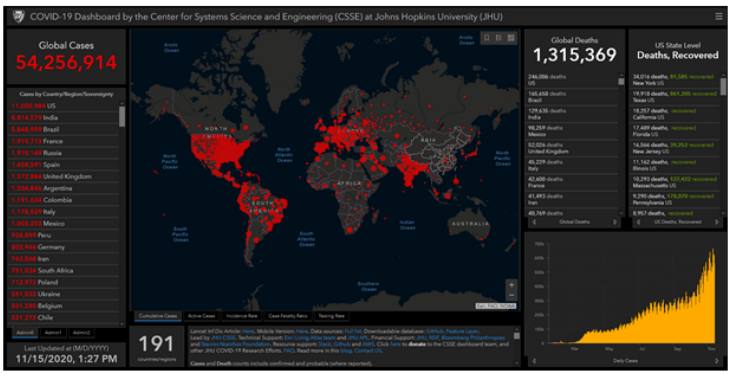
Hours later, the FDA announced that a panel of outside experts, the Vaccines and Related Biological Products Advisory Committee or VRBPAC, will meet Dec. 10 to review the data and advise the agency on whether to approve the emergency use request and what conditions, if any, to put on the vaccine's use. It it unlikely to be authorized for use in children under the age of 12, for instance, because it hasn't yet been tested in pre-teens.

It is widely expected that the FDA will then issue an emergency use authorization for the two-dose vaccine, which has been shown to be highly effective in preventing Covid infections. Officials have said they hope to begin vaccination of health workers — who will be at the front of the line for the limited first doses — in some locations within days of the authorization.

…the number of coronavirus cases around the world has soared,…

COVID-19 GLOBAL CASES AND DEATHS ACCELERATING





https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942367b48e9ecf6

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 4.2 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 256,000 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 70,000 from the 61,000 range the week prior, though the "confirmed case" mortality rate of 2.37% continues to decrease.

…and the news last week was miserable in terms of what is in store for the U.S. over the next few weeks, even as there was talk this weekend that vaccinations could start December 11 and December 12.

COVID-19 headlines on Sunday were very disconcerting for the near-term with cases continuing to skyrocket but were also very hopeful with indications that vaccinations in the U.S. could start in just a few weeks and that herd immunity could be reached by May 2021, assuming most people get vaccinated with a highly efficacious vaccine.

1 hr 24 min ago

The US has had more than 3 million Covid-19 cases in November — and the month isn't even over yet

The United States has reported more than three million new Covid-19 cases this month as of 1 p.m. EST Sunday, according to Johns Hopkins University data. There's still more than a week left before November is over.

Here's the full breakdown of cases per month in the US:

- **November:** 3,002,082 (As of this afternoon)
- **October:** 1,910,668
- **September:** 1,200,315
- **August:** 1,462,797
- **July:** 1,921,461
- **June:** 834,309
- **May:** 718,241
- **April:** 884,026
- **March:** 192,152

1 hr 40 min ago

Nearly 25% of the US's coronavirus cases have been reported this month

From CNN's Hollie Silverman

The United States has reported more than 3 million new Covid-19 cases in November as of 1 p.m. EST Sunday, according to Johns Hopkins University data.

There have also been at least 25,040 deaths from the virus in November as of Sunday afternoon.

Since November began, an additional 3,002,082 cases have been identified.

There have now been a total of 12,126,076 coronavirus cases and 256,163 deaths throughout the US.

November's new cases account for 24.75% of all cases in the US since the pandemic began and the month's death count accounts for 9.7% of all Covid-19 deaths in the US.

1 hr 8 min ago

The number of daily Covid-19 cases in California has nearly tripled since the beginning of November

From CNN's Artemis Moshtaghian

What the White House's vaccine czar said about the vaccine process this morning

CNN

Dr. Moncef Slaoui, the head of the government's effort to develop a vaccine against Covid-19, appeared on CNN's "State of the Union" this morning to answer questions about the US's race to develop and distribute a coronavirus vaccine.

Here are the key takeaways from his interview:

- **The first Americans could be vaccinate next month:** Slaoui said he hopes for the first people to be vaccinated for Covid-19 on day two after FDA approval, and that based on plans. An FDA vaccine advisory committee is slated to meet on Dec. 10, so he said, he expects "maybe on day two after approval, on the 11th or the 12th of December," vaccinations could begin.
- **Children could start to be vaccinated next year:** Slaoui said he expects children will be able to receive the coronavirus vaccine some time in the middle of next year. He said said the government is planning to run clinical trials into younger adolescents, and then toddlers and infants on "an expedited basis" in the coming months.
- **The quick timeline isn't because of political pressure:** The expedited timeline of Operation Warp Speed has had nothing to do with political pressure, its chief scientific officer, Slaoui told CNN's Jake Tapper. "One hundred percent," Slaoui told Tapper when asked if the timeline was due to health reasons, not because of pressure from any politician

Fauci: "We need to get as many people as possible vaccinated"

from CBS

Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases said that there are two things that make a vaccination program effective: the efficacy of the vaccine and how many people take it.

Fauci was speaking to CBS's Margaret Brennan on Face The Nation on Sunday. Brennan quoted Operation Warp Speeds chief scientific advisor, Moncef Slaoui, saying "we could have true herd immunity take place somewhere in the month of May as the vaccine is distributed."

Brennan then asked Fauci if America goes back to normal life in May.

> **"You know, I don't think so, unless we do, and I believe you're referring to Moncef Slaoui who said that," Fauci said, adding "and I totally agree with him," after Brennan confirmed.**

"If you have a highly efficacious vaccine, and only a relatively small 40, 50% of the people get vaccinated, you're not going to get the herd immunity you need," Fauci said. "What we do need is we need to get as many people as possible vaccinated."

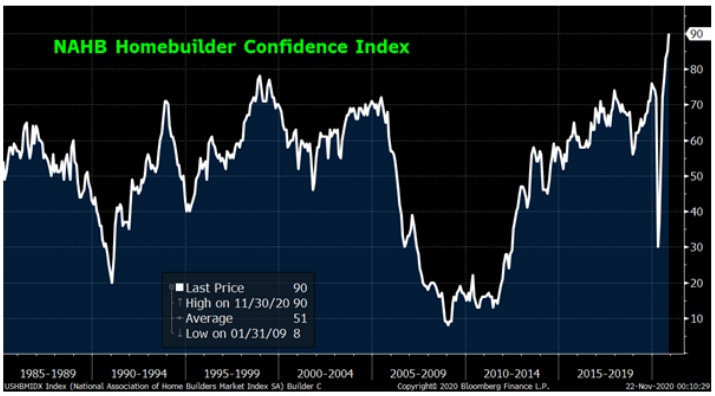
This is why, he explained, "we want to be very transparent" and for people to understand the independent, transparent process which led to the point of the US Food and Drug Administration, along with independent advisory committees, saying that the vaccines are safe and effective with an EUA and ultimately a license.

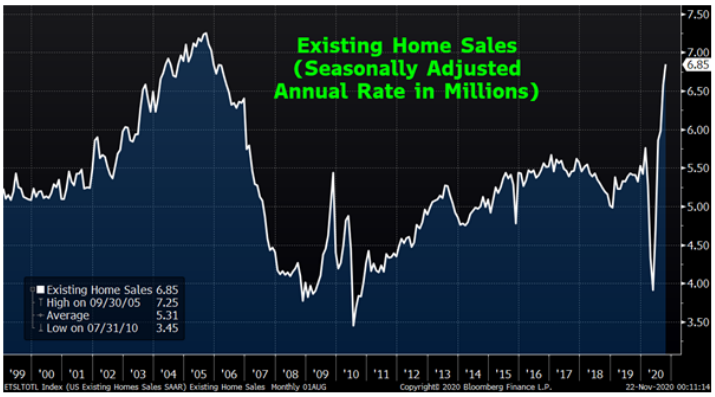
"When the American public hears that, you should be assured that that is the case and if you get an overwhelming majority of the people vaccinated with a highly efficacious vaccine, we can reasonably quickly get into herd immunity that would be a blanket of protection for the country," Fauci said.

Certainly, there are no guarantees that life gets back to normal by May of next year as Dr. Slaoui and Dr. Fauci both suggested might be possible, assuming most people get vaccinated with a highly efficacious vaccine, and the near-term business outlook is clouded by new lockdowns around the country, but the U.S. economy continues to hold up well. Yes, business is hardly booming, aside from the housing sector,…

THE PRUDENT SPECULATOR

SENSATIONAL HOUSING NUMBERS



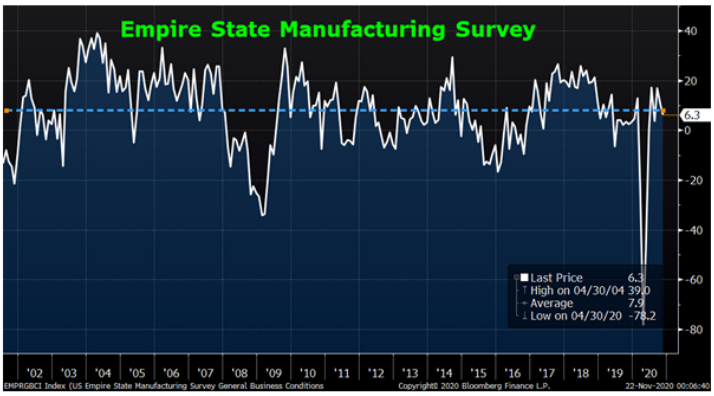


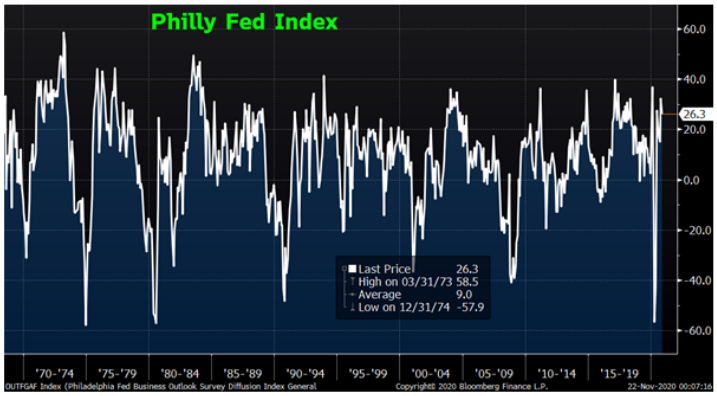
The National Association of Home Builders' monthly confidence index for November rose sharply to a better-than-expected tally of 90, the best reading in history for the 35-year-old gauge. No doubt, record low mortgage rates are supporting the housing market, and sales of existing homes in October jumped 4.3% from September to a stronger-than-forecast seasonally adjusted annual rate of 6.85 million units, the highest level in 15 years.

…but numbers on manufacturing remain solid,…

THE PRUDENT SPECULATOR

FACTORY OUTLOOK REMAINS POSITIVE IN NOVEMBER





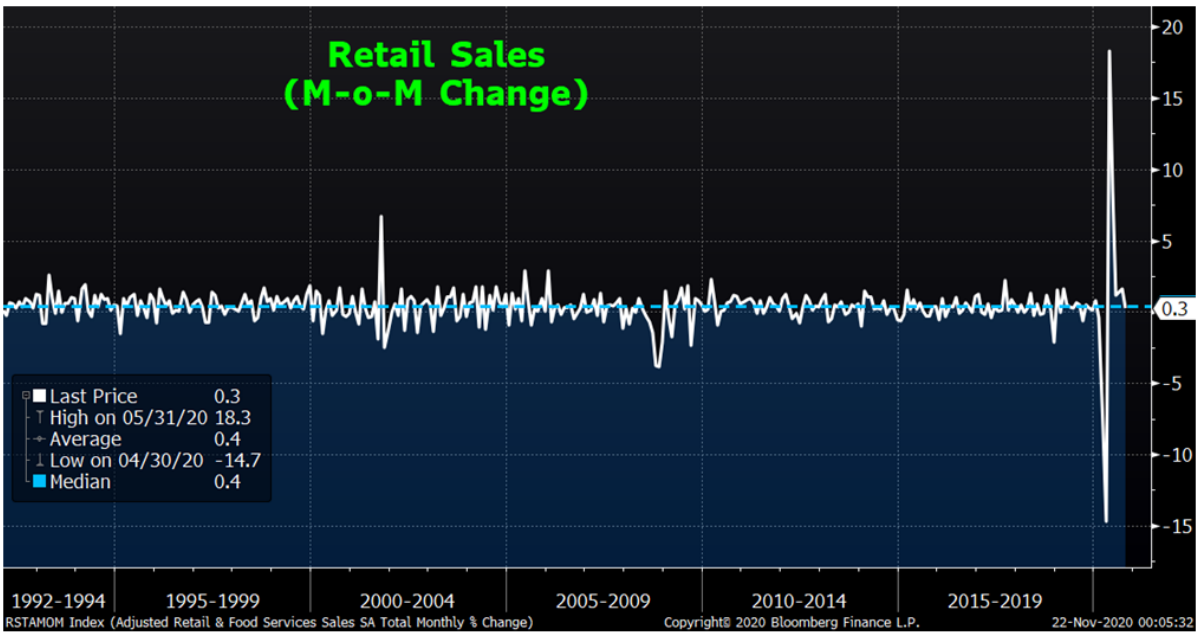
The Empire State gauge of manufacturing activity in the New York area dropped in November, declining from 10.5 in October to a reading of 6.3, slightly below average for this business conditions index. The Philadelphia Fed's November measure of manufacturing activity in the mid-Atlantic region dipped to 26.3, but that was better than projected and well above the average for the index. Both numbers indicate improving factory conditions.

…while the consumer has also hung in,…

THE PRUDENT SPECULATOR

POCKETBOOKS A LITTLE TIGHTER: RETAIL SALES GROWTH SHRINKS

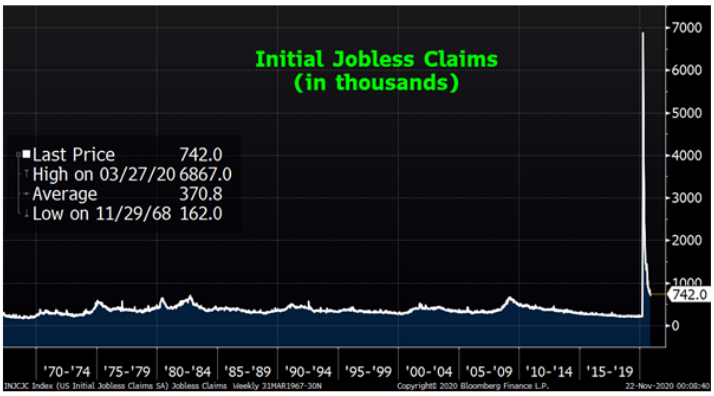
Even as the impact of government stimulus has waned, Americans continued to spend in October, with retail sales inching up 0.3%, in line with expectations, though the tally represented the lowest increase since the pandemic plunge in March and April.

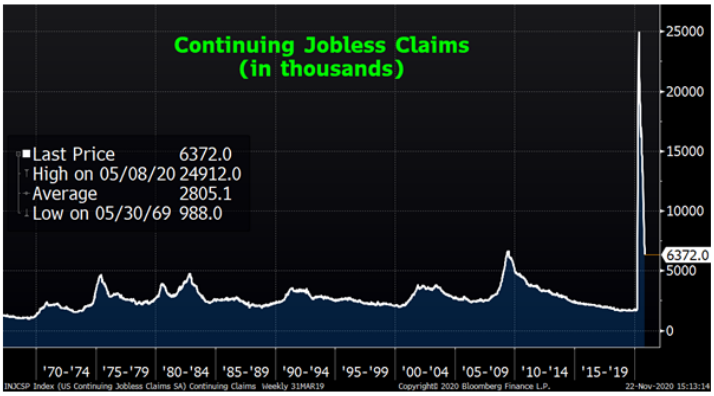


…even as millions of folks remain out of work.

THE PRUDENT SPECULATOR

DISMAL (BUT IMPROVING) EMPLOYMENT NUMBERS





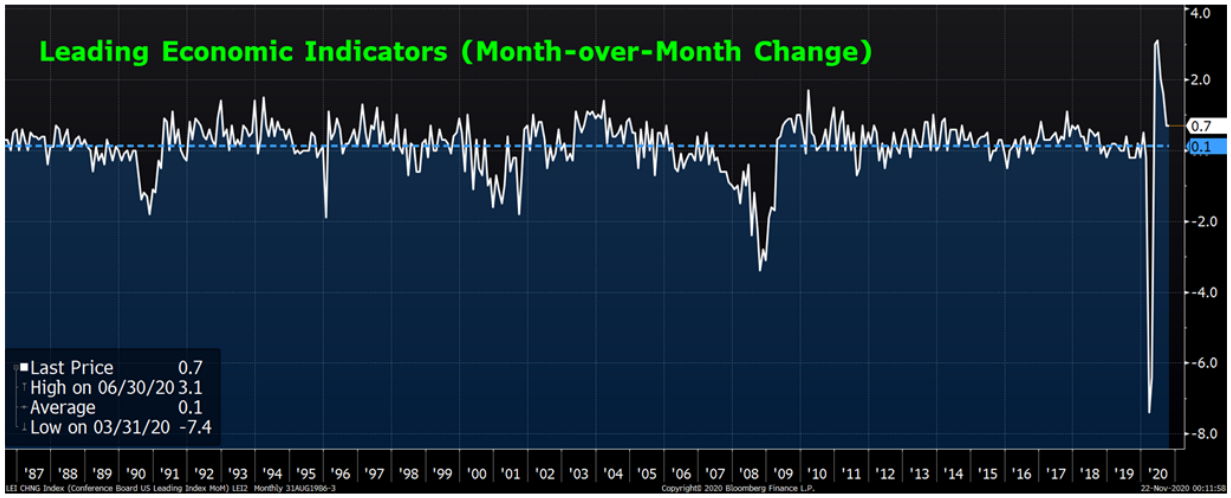
While we respect that the labor picture hardly can be called good, even as the numbers today are significantly better than many had projected a few months back, first-time filings for unemployment benefits in the latest week came in at 742,000 figure, the second lowest since March. Also, continuing jobless claims filed through state programs fell by 429,000 to a seasonally adjusted 6.37 million in the latest week, dropping to another pandemic low.

Despite all the uncertainty, most are still projecting that U.S. GDP will expand in the current quarter, be it the Conference Board,…

THE PRUDENT SPECULATOR

LEI STILL WELL INTO POSITIVE TERRITORY…FOR NOW

The forward-looking Leading Economic Index rose by 0.7% on a month-over-month basis in October, unchanged from a 0.7% advance in September. The average gain in the LEI back to 1986 has been just 0.1%, but the keeper of the metric, stated, "Downside risks to growth from a second wave of COVID-19 and high unemployment persist. While The Conference Board projects the US economy will expand in Q4, the pace of growth is unlikely to exceed 2.2 percent (annual rate)."

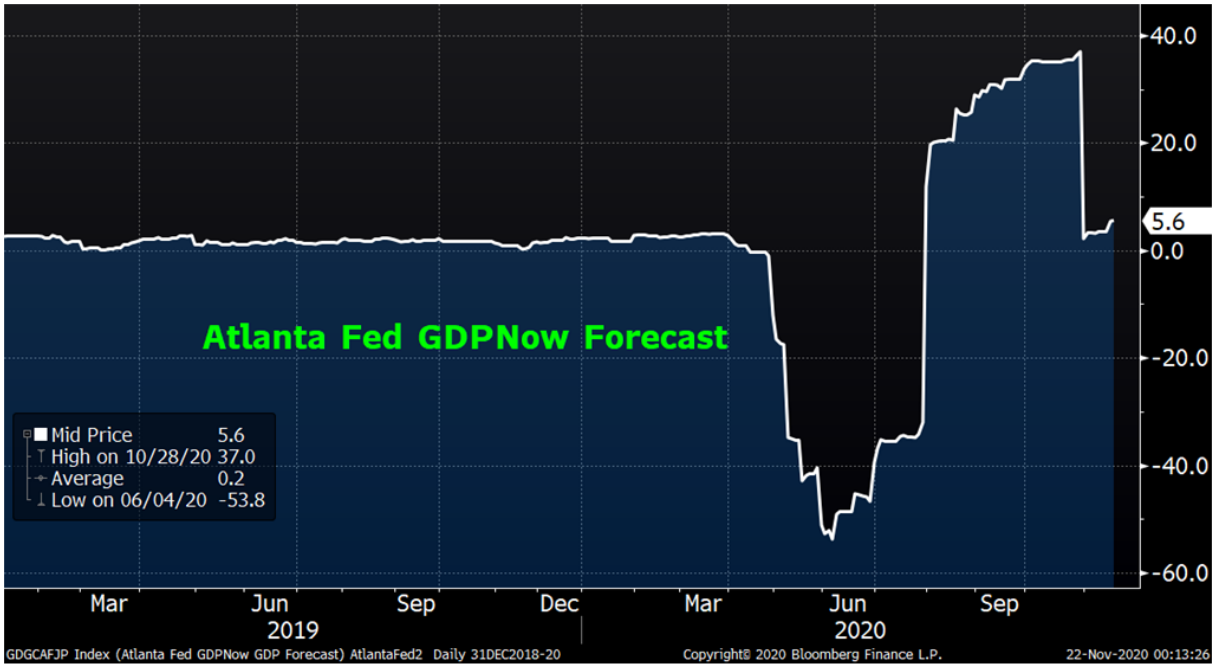


…or the Atlanta Fed,…

THE PRUDENT SPECULATOR

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 decent 5.6% increase in GDP in Q4 GDP on an annualized basis.



…with the continuation of the economic recovery from the horrific Q2 collapse an additional reason for folks to be favoring Value-oriented strategies as we head into 2021 and beyond.

VALUE STOCKS HAVE OUTPERFORMED COMING OUT OF RECESSION

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

S&P 500 and Fama/French Value Performance

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

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

Interestingly, investors have decided they like stocks a little better this month,…

THE PRUDENT SPECULATOR

A LITTLE BIT OF ENTHUSIASM FOR U.S. STOCKS

Folks on Main Street became much less optimistic last week, as the latest AAII Sentiment Survey saw the number of Bulls plunge 11.7 percentage points, but the 44.4% figure is still well above the historical average.

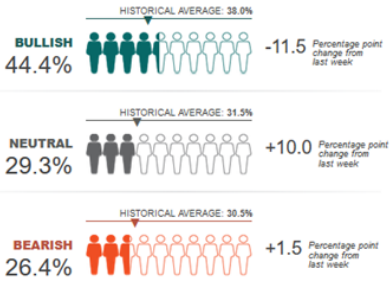
Seemingly for the first time in forever, investors piled into U.S. stocks in the latest week, even as the love affair with fixed income resumed after a one-week hiatus, per the latest data on mutual and exchange traded fund flows from the Investment Company Institute.

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 11/18/2020

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	11/11/2020	11/4/2020	10/28/2020	10/21/2020	10/14/2020
Total Equity	22,492	-12,968	-27,059	-10,845	-17,597
Domestic	19,964	-11,720	-15,559	-9,727	-7,202
World	2,528	-1,248	-11,500	-1,118	-10,396
Hybrid	785	-3,450	-2,102	-680	-1,003
Total Bond	18,441	-3,345	8,533	15,588	20,821
Taxable	16,352	-3,102	7,312	13,387	19,392
Municipal	2,089	-243	1,220	2,200	1,428
Commodities	-267	-272	-675	-1,104	840
Total	41,451	-20,035	-21,304	2,959	3,061

Source: Investment Company Institute

…and there is plenty of money still hiding out in fixed income that could fuel a continuation of the equity rebound,…

THE PRUDENT SPECULATOR

BONDS REMAIN STUNNINGLY POPULAR

With the S&P 500 having bounded back from the March 23, 2020 lows, many think folks are infatuated with U.S. equities, but data from the ICI show that Bonds, aside from a big hiccup in March, continue to garner nearly all the love, despite record low interest rates.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Jul-16	292	33,575	Jan-18	10,778	46,287	Jul-19	-7,889	44,811
Feb-15	5,547	30,321	Aug-16	-9,956	30,859	Feb-18	-41,444	2,706	Aug-19	-29,909	22,304
Mar-15	-1,494	4,905	Sep-16	-5,713	24,669	Mar-18	-22,152	14,148	Sep-19	-4,650	38,482
Apr-15	-34,681	11,027	Oct-16	-23,109	13,855	Apr-18	-7,403	24,176	Oct-19	-24,646	43,187
May-15	-17,287	5,010	Nov-16	22,993	-13,289	May-18	10,068	11,749	Nov-19	-11,677	44,480
Jun-15	-7,023	6,324	Dec-16	18,859	-4,142	Jun-18	-21,004	16,995	Dec-19	-27,502	50,733
Jul-15	-14,864	-1,255	Jan-17	5,097	31,037	Jul-18	1,007	22,495	Jan-20	-24,546	73,855
Aug-15	-18,569	-18,122	Feb-17	17,613	33,991	Aug-18	-6,660	17,219	Feb-20	-28,222	25,064
Sep-15	-4,725	-10,849	Mar-17	9,411	36,562	Sep-18	886	18,526	Mar-20	-7,487	-273,714
Oct-15	-807	15,397	Apr-17	-8,266	22,064	Oct-18	-9,657	-27,700	Apr-20	2,662	14,672
Nov-15	654	-5,573	May-17	-10,725	33,070	Nov-18	2,783	-7,459	May-20	-20,931	73,168
Dec-15	476	-25,043	Jun-17	-7,944	29,372	Dec-18	-28,953	-49,512	Jun-20	-24,824	100,075
Jan-16	-27,222	7,686	Jul-17	-12,518	29,139	Jan-19	-21,195	29,308	Jul-20	-46,515	98,489
Feb-16	-9,108	11,915	Aug-17	-22,771	25,078	Feb-19	3,632	45,138	Aug-20	-57,594	84,113
Mar-16	7,711	29,296	Sep-17	-9,775	33,440	Mar-19	-3,654	38,412	Sep-20	-28,899	49,355
Apr-16	-12,610	22,114	Oct-17	3,166	36,110	Apr-19	-5,307	40,565	Oct-20	-48,928	69,962
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332			
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	**Totals:**	**-791,547**	**1,432,097**

…especially with more than $17 trillion parked in the supposed safety of negative yielding government bonds.

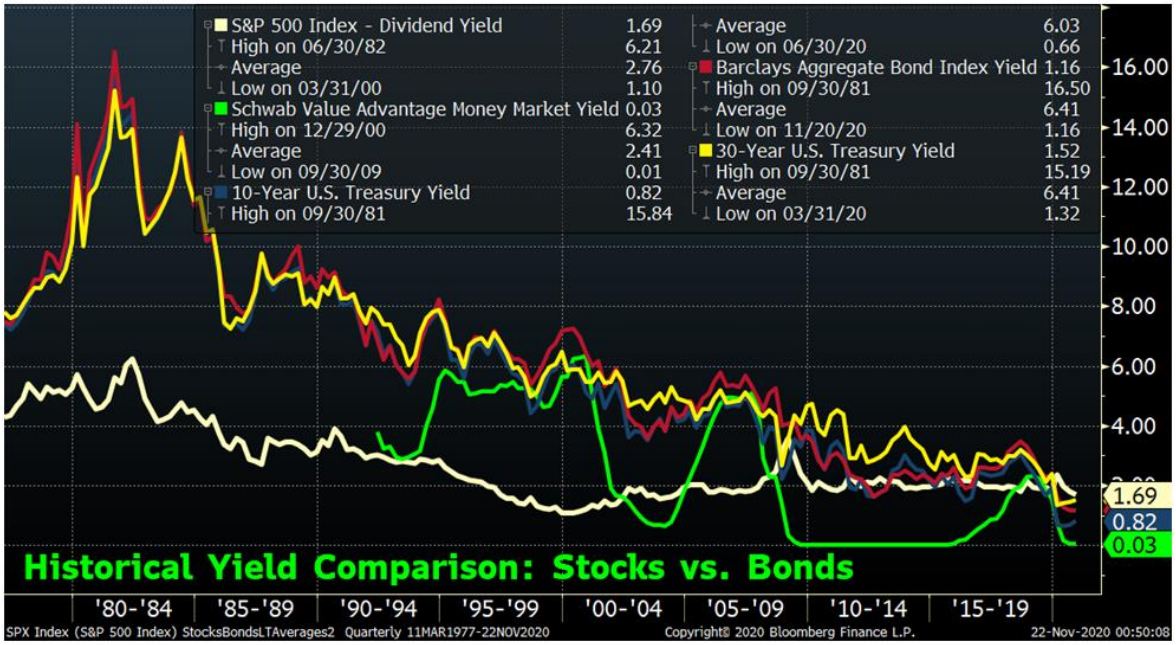
Incredibly, money continues to pour into government bonds, with this year's surge pushing yields on another $6 trillion below zero. Yes, we understand that the pros can utilize derivatives to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.

After all, stocks remain extraordinarily attractive from an income perspective, relative to yields available on competing investments,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.69%) 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!**



…while dividends historically have grown over time,…

THE PRUDENT SPECULATOR

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 11.19.20)	248	10	26	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.)	$61.67
2020 (Est.)	$59.76
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

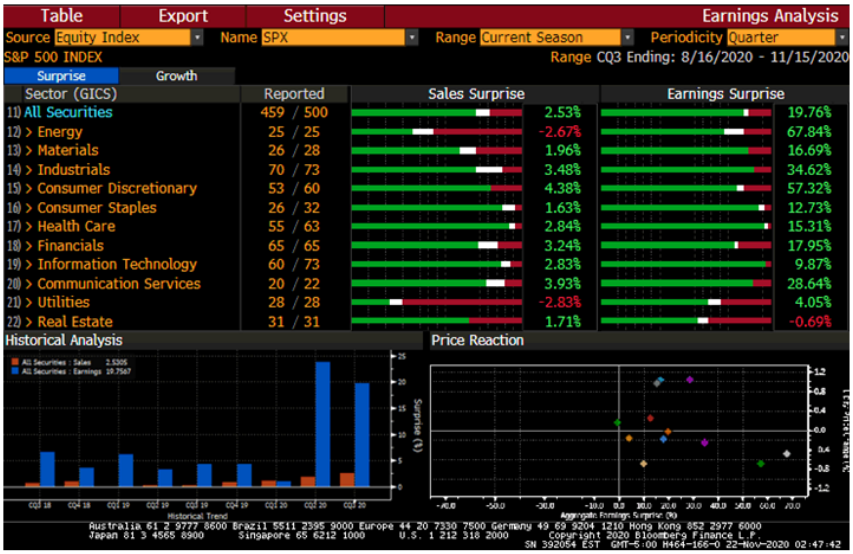
Source: Bloomberg. As of 11.20.20

…as have corporate profits.

THE PRUDENT SPECULATOR

EPS PLUNGE IN 2020 BUT REBOUND IN 2021

Q3 earnings reporting season was very good, relative to analyst projections that had become 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	$44.80	$165.85
9/30/2021	$43.53	$157.56
6/30/2021	$40.06	$151.81
3/31/2021	$37.46	$138.54
12/31/2020	$36.51	$120.58
9/30/2020	$37.78	$123.25
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 11.19.20

As such, it shouldn't be a big surprise that the financial press has started to rediscover the value of dividends.

DIVIDENDS COMING BACK IN VOGUE

BUSINESS

Coronavirus Spurred Companies to Hoard Cash. Now They Are Starting to Dole It Out.

Covid-19 cases are surging but Kohl's, Marathon Oil and Darden are resuming dividend payments, a sign they believe the pandemic's worst is behind them

LongHorn Steakhouse operator Darden Restaurants is one of several companies that have resumed paying shareholder dividends after taking a pause earlier this year.
PHOTO: DUSTIN CHAMBERS/BLOOMBERG NEWS

By Thomas Gryta
Nov. 22, 2020 5:30 am ET

Listen to this article
6 minutes

After scrambling to hoard cash in the spring, some large U.S. companies that halted their dividend payments are reversing their decision, a sign that their leaders believe the worst of the crisis is behind them.

Earlier this year, when much of the country's economy shut down in the first waves of the coronavirus pandemic, companies withdrew cash from credit lines, stopped repurchasing stock and halted dividend payments amid the uncertainty. The public health plight continues, but many businesses—from factories to law firms—have learned how to operate during the pandemic. Retailers, fast-food restaurants and car makers are doing better, and there is hope among executives that any new restrictions to battle the latest U.S. surge in cases won't be as severe.

"Multinationals are beginning to exhale," said Mark Zandi, chief economist at Moody's Analytics. "The resumption of corporate dividend payments is an encouraging sign that executives believe that the pandemic will soon be behind us."

With *The Wall Street Journal* and *The New York Times* this weekend recognizing the improvement in dividends and *TPS* selections **Merck**, **Timken**, **Tyson Foods** and **Kimco Realty** hiking their payouts last week, we think investors are coming to understand the Value of Dividends.

Dividends Are Down, but They Are Vastly Better Than Expected

After predictions of cuts of 20 percent or more, stock dividends have been surprisingly resilient. Low interest rates have helped to keep companies flush with cash.

By Jeff Sommer

Nov. 20, 2020

It's been a horrendous year for so many things: public health, employment, civil discourse, political norms, cultural and sports events, restaurants, small businesses of nearly every sort. Make your own list. There are plenty of choices.

In the stock market, dividend payouts had appeared to be among the prime casualties of the recession caused by the coronavirus pandemic. With the economy in a steep dive earlier this year, big corporations began hoarding cash. There were predictions by Goldman Sachs, among others, that dividends would fall by more than 20 percent, cutting payouts to investors by hundreds of millions of dollars.

Well, it hasn't turned out that way. Dividends are down, yes, after years of steady and substantial gains.

But with little more than a month to go in 2020, the total decline for dividends in the benchmark S&P 500 stock index is likely to have amounted to less than 1 percent — 0.67 percent, more precisely. That's the estimate of Howard Silverblatt, senior index analyst for S&P Dow Jones Indices, who has been tracking these numbers closely for decades.

A drop in that range would be inconsequential, given the severity of the stock market downturn earlier in the year and the rate that the economy shrank, 31.4 percent, in the second quarter of the year.

"Considering where we were, this hasn't been a bad year for dividends," Mr. Silverblatt said in an interview. "It has been a great year."

Stock Updates

While Value has enjoyed some time in the sun over the last four months, there are still numerous inexpensive stocks in the red for the year.

DESPITE THE EQUITY MARKET RALLY, PLENTY OF BARGAINS REMAIN

Illustrating that it is a market of stocks and not simply a stock market, we put together a diversified listing of 25 undervalued names, all of which remain down in excess of 15% in 2020, despite recent gains.

Market of Stocks

TPS Bargains Still Down >15% in 2020

Symbol	Common Stock	11.20.20 Price	Target Price	One Week % Perf	YTD % Perf	52-Week High	% Below High	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AXAHY	AXA SA	$22.28	$34.95	**2.5**	**-17.7**	$28.49	-22%	Insurance	10.7	nmf	nmf	5.0	nmf	nmf	nmf	3.0%	53,868
AYI	Acuity Brands	$109.86	$174.83	**5.4**	**-20.0**	$143.55	-23%	Capital Goods	13.3	1.2	9.2	12.3	8.4	10.4	98%	0.5%	4,047
BAC	Bank of America	$26.81	$39.19	**-0.7**	**-22.3**	$35.72	-25%	Banks	13.5	nmf	1.3	7.3	nmf	nmf	nmf	2.7%	231,928
BHE	Benchmark Electronics	$23.85	$31.92	**0.9**	**-29.0**	$37.36	-36%	Technology Hardware	27.1	0.4	1.2	-0.1	11.3	2.9	30%	2.7%	870
BIIB	Biogen	$244.15	$337.05	**-1.8**	**-17.7**	$374.99	-35%	Pharma, Biotech	6.7	2.6	22.4	41.1	5.7	14.9	467%	0.0%	37,570
C	Citigroup	$51.65	$95.00	**6.1**	**-32.7**	$83.11	-38%	Banks	10.6	nmf	0.7	6.1	nmf	nmf	nmf	3.9%	107,533
CMA	Comerica	$50.44	$80.45	**-0.1**	**-25.9**	$73.43	-31%	Banks	13.9	nmf	1.0	6.9	nmf	nmf	nmf	5.4%	7,016
COF	Capital One Financial	$83.58	$115.78	**-3.6**	**-17.7**	$107.59	-22%	Diversified Financials	28.7	nmf	1.0	1.8	nmf	nmf	nmf	0.5%	38,229
EOG	EOG Resources	$45.39	$65.88	**6.4**	**-44.1**	$89.54	-49%	Energy	21.6	2.1	1.3	-1.5	8.6	6.5	24%	3.3%	26,480
HFC	HollyFrontier	$22.15	$44.84	**1.6**	**-54.1**	$53.87	-59%	Energy	63.3	0.3	1.5	-7.5	100.6	6.0	150%	6.3%	3,589
HPE	Hewlett Packard Enter	$10.47	$16.36	**3.3**	**-31.7**	$17.46	-40%	Technology Hardware	7.1	0.5	nmf	0.0	9.5	3.2	nmf	4.6%	13,468
INT	World Fuel Services	$28.26	$41.09	**4.2**	**-34.1**	$44.37	-36%	Energy	14.2	0.1	1.7	9.0	6.2	27.0	47%	1.4%	1,795
INTC	Intel	$45.39	$67.79	**-0.2**	**-22.3**	$69.29	-34%	Semiconductors	8.5	2.4	4.9	29.5	5.4	10.5	96%	2.9%	186,008
JWN	Nordstrom	$21.29	$33.05	**23.0**	**-47.3**	$43.37	-51%	Retailing	nmf	0.3	nmf	-98.0	31.7	-21.9	nmf	0.0%	3,346
KEY	KeyCorp	$15.33	$21.05	**3.1**	**-21.1**	$20.53	-25%	Banks	13.1	nmf	1.2	7.2	nmf	nmf	nmf	4.8%	14,969
KIM	Kimco Realty	$14.95	$17.83	**5.1**	**-24.8**	$21.77	-31%	Real Estate	12.3	nmf	1.3	19.0	nmf	nmf	nmf	2.7%	6,466
KSS	Kohl's Corp	$28.41	$45.14	**17.1**	**-41.9**	$51.60	-45%	Retailing	nmf	0.3	0.9	-4.7	11.9	24.7	134%	0.0%	4,482
NYCB	NY Community Bancorp	$9.07	$14.90	**4.6**	**-19.1**	$12.17	-25%	Banks	10.8	nmf	1.1	6.2	nmf	nmf	nmf	7.5%	4,208
REG	Regency Centers	$47.26	$68.30	**3.3**	**-22.1**	$65.67	-28%	Real Estate	14.8	nmf	1.4	0.8	nmf	nmf	nmf	5.0%	8,027
SFL	SFL Corp Ltd	$6.95	$12.29	**1.6**	**-48.1**	$14.80	-53%	Energy	10.8	1.8	0.9	-3.5	14.7	9.7	234%	8.6%	840
T	AT&T	$28.32	$40.96	**-2.0**	**-22.6**	$39.55	-28%	Telecom Services	8.5	1.2	nmf	6.1	7.0	13.7	nmf	7.3%	201,808
TOT	Total SE	$41.32	$57.82	**6.5**	**-19.3**	$56.91	-27%	Energy	17.8	0.8	1.3	-5.1	7.0	4.5	76%	6.2%	109,627
TSN	Tyson Foods	$60.74	$94.58	**-2.6**	**-32.0**	$94.24	-36%	Food, Beverage & Tobacco	10.8	0.5	nmf	14.5	7.2	12.2	nmf	2.9%	22,118
VIAC	ViacomCBS	$33.99	$57.85	**12.5**	**-16.3**	$43.04	-21%	Media & Entertainment	8.0	0.8	nmf	13.8	10.0	14.3	nmf	2.8%	21,053
XOM	Exxon Mobil	$36.94	$60.10	**2.4**	**-42.8**	$71.37	-48%	Energy	nmf	0.8	0.9	1.8	11.2	-2.1	26%	9.4%	156,191

As of 11.20.20. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

Jason Clark, Chris Quigley and Zach Tart look at 8 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*.

Pfizer (PFE – $36.70), in partnership with BioNTech, is front and center in the race to develop a COVID-19 vaccine, with the two firms having applied for emergency-use authorization from the FDA on Friday. We expect there to be a high probability of approval which may allow a vaccine to be available to high-risk groups as early as mid-December. The news is fantastic for the public at large, but we expect the host of competition in the vaccine race (Johnson & Johnson, AstraZeneca, Moderna and others) to cap significant upside for investors. Moderna appears not far behind with the its own mRNA therapeutic, which is 94.5% effective.

Additionally, the spinoff of Pfizer's Upjohn segment into a new company known as **Viatris** (VTRS – $17.13) completed last week and began trading as its own entity. Pfizer stockholders received approximately 0.124079 shares of Viatris common stock for every one share of PFE held as Upjohn was merged with Mylan N.V. in the process. Viatris has over 1,400 therapeutics

(which includes several of Pfizer's more established drugs like Lipitor, Celebrex and Viagra), with its products sold in 165 countries and expected revenue in the ballpark of $19 billion to $20 billion. With over $4.00 of earnings per share expected by analysts in each of the next few years, we think VTRS shares are attractively priced, and we intend to hold the new position for the time being. While the Upjohn divestiture creates understandable questions for investors for the remaining company, we still believe that the market under-appreciates New Pfizer's emerging pipeline of products and management's increasing confidence in its organic growth potential. We also like that during these unprecedented times, the company generates solid free cash flow. With a yield of 3.9%, our Target Price for PFE now stands at $49. We do not yet have a Target Price for VTRS.

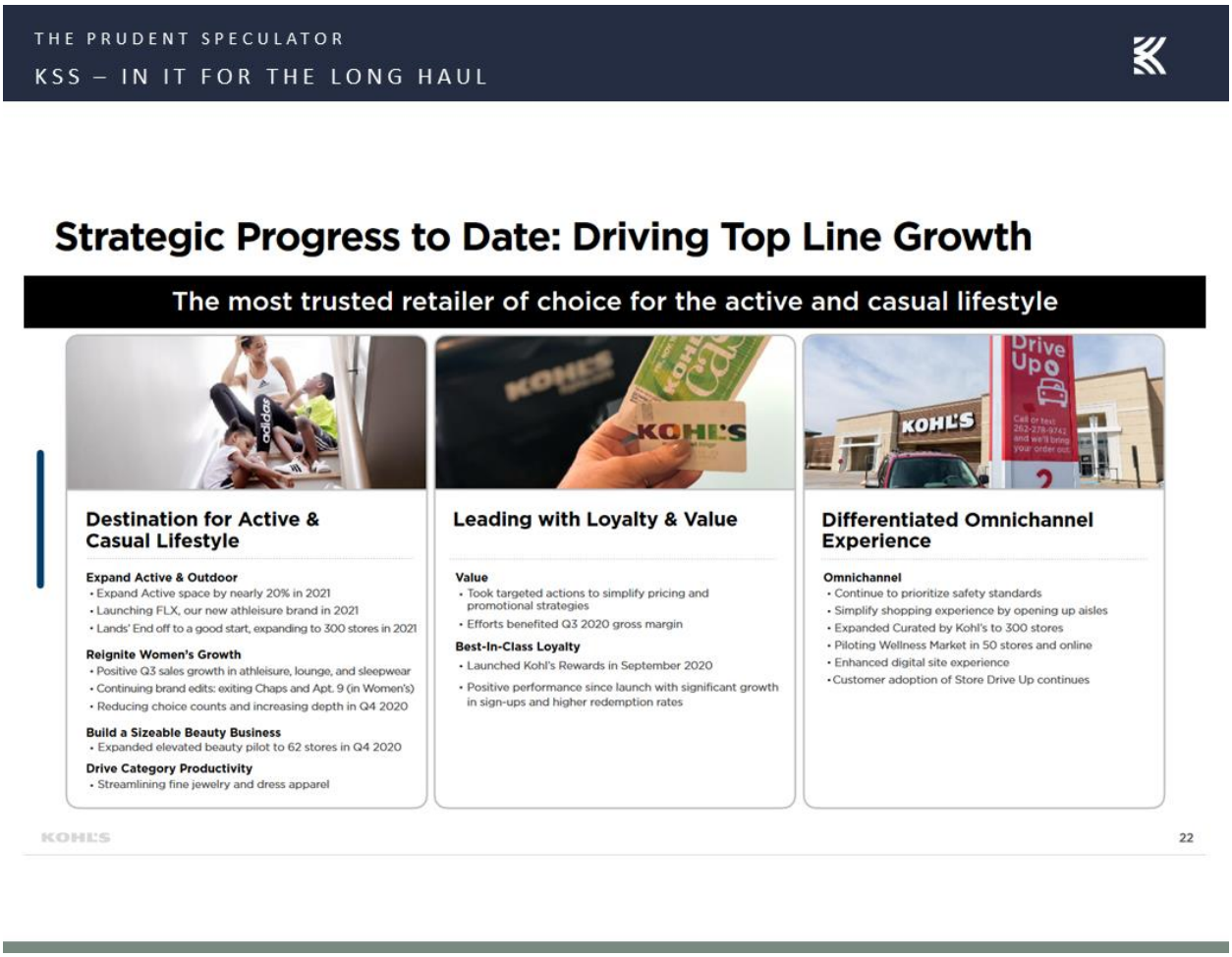
Family-oriented department store operator **Kohl's** (KSS – $28.41) posted a quarterly profit of one penny per share in fiscal Q3 2021 compared with an expected loss of 44 cents. Kohl's had revenue of $3.78 billion, below the analyst consensus of $3.87 billion. Although the pandemic continued to weigh on the company's operations in the quarter, management reported that the business environment is strengthening. Happily, KSS expects to reinstate the dividend in the first half of 2021.

"For the quarter, we were particularly pleased with the continued strong positive growth in our home and toys businesses as well as our performance in active and beauty. We are encouraged by these trends given that these categories grow in importance over the holiday season and they are a key part of our strategy going forward," explained CEO Michelle Gass, "Kohl's has always been known as a holiday destination and this year will be no different, despite COVID altering all aspects of customer expectations. We entered the holiday season well-positioned and prepared, amplifying our omnichannel capabilities to serve and support our customers. Given the heightened role of digital this year, it will be more important for us to further drive awareness of our store and curbside pickup services. Ship from Store will also continue to be critical in supporting our omnichannel network, and we are more than doubling the number of stores carrying incremental inventory to fulfill digital orders during peak. While we feel good about our inventory position, we are actively monitoring the supply chain. We are operating very safely and we expect many customers will shop in our stores. We implemented extensive health and safety measures earlier this year and have put in place additional precautions to ensure store cleanliness and to support social distancing during this busy time of the year."

Ms. Gass closed, "I continue to be very proud of how our organization is navigating through the COVID-19 pandemic. Our third quarter results exceeded our expectations with significant sequential sales and profitability improvement. Our performance also showcased the power of our business model, specifically our cash flow-generating capabilities despite facing pandemic-driven headwinds. We've also learned to run the business with greater speed, agility and creativity during this pandemic, which will continue to benefit us going forward. The ongoing disruption in the retail industry presents significant market share opportunities and we are aggressively taking advantage of that. We began to redeploy our competitive store closure strategies during Q3 and we are pleased with the initial traction we are seeing."

CFO Jill Timm added, "Going forward, we will continue to look for cost savings opportunities. And we are also committed to disciplined capital management. This is a hallmark of ours and we

remain focused on managing the business to sustain our investment-grade rating. We showcased this in the third quarter through significant cash flow generation, debt reduction and now disclosing our plan to reinstate a dividend in the first half of 2021. We'll be thoughtful on how we reinstate a dividend, taking into account the payout ratio and yield as well as our intent to sustain and grow it over time. We also see opportunities to do some liability management in 2021 to further improve our leverage profile."



KSS has $1.9 billion of cash and $6.5 billion of long-term debt on its balance sheet. The company's credit facilities have $500 million available should the latest round of lockdowns impact Kohl's sales more than expected. Earnings estimates remain are all over the map and make period-over-period comparisons difficult. Analysts still expect a loss per share in fiscal 2021 around $2.80, but that's expected to improve to a profit of $2.35 or so in 2022 and $2.65 in 2023. We think that additional challenges loom on the horizon for KSS, especially if the surge in COVID is prolonged or worse than earlier in 2020, but we continue to thing Kohl's is a survivor in the retail world that will thrive when the pandemic has passed. Our Target Price for KSS now stands at $45.

Discount supermarket and superstore chain **Walmart** (WMT – $131.63) announced strong fiscal Q3 2021 results that benefited from larger ticket sizes in the U.S. (24% higher) compared to the

same quarter last year, which more than made up for the 14% contraction in the number of transactions as folks continue to make fewer trips to the store. The firm earned $1.34 per share, much higher than the $1.18 estimate, on sales of $134.7 billion (vs. $132.4 billion est.). The $600 million of incremental costs related to COVID-19 were much lower than the $1.5 billion the previous quarter, while eCommerce sales grew 79%. Cash flow remains very strong as the retailer produced $23 billion in the period, more than $8 billion higher than last year. Shares were essentially flat on the week but are up 25% year-to-date.

CEO Douglas McMillon commented, "With the outbreak of COVID-19, the retail world clicked to a fast forward, and our ability to adapt quickly has been crucial. Changes in customer behavior have accelerated the shift to eCommerce and digital. We were well positioned to catch and ride these waves given our previous work and investments. Our eCommerce and omnichannel penetration continue to rise, accelerating trends by 2 to 3 years in some cases. We're convinced that most of the behavior change will persist beyond the pandemic and that our combination of strong stores and emerging digital capabilities will be a winning formula. Customers will want to be served in a variety of ways, and we're positioned to save them money, provide the variety of product choices they're looking for and deliver the experience they choose in the moment."

Walmart shed several of its international businesses in the quarter, including those in the U.K., Japan and Argentina. CEO of Walmart International Judith McKenna commented on the firm's international strategy, "We're going to continue to focus [a] market at a time. Our priority markets are clear: India, China, Mexico and Canada. But actually, every market that we have plays a role in the portfolio in some way. And I think the Japan deal is a really good example, announced on Sunday, of really how we can bring together people not only to do a digital transformation for Japan, but more importantly, how much Walmart can continue to learn in that relationship as well. And we continue a relationship with them on a commercial basis in respect of providing global sourcing. This is a really new type of model that we're creating for International."

Competition is fierce within retail, but we applaud Walmart for its continuous transformation to build an omnichannel presence, aided by a dense network of stores and a new Walmart+ program to compete with Amazon Prime. And while under pressure through the pandemic, we continue to think investments in Jet.com, Flipkart, JD.com and others lengthen the retailer's runway for growth into the future. WMT generates strong free cash flow and maintains a strong financial footing, while the company remains committed to returning capital to shareholders. The dividend yield is 1.4%, with the next declared payment of $0.54 due in January. Our Target Price for WMT now stands at $164.

Shares of **Lowe's Cos** (LOW – $149.93) sank 6% on Wednesday as the home improvement retailer released financial results for fiscal Q3 2021. Perhaps expectations had become too rosy, even as Lowe's grew sales (to $22.3 billion) and earnings (to $1.98 per share), up 28% and 40% year-over-year, respectively. Comparable sales were up 30.4% in the quarter, with broad-based growth across channels, product categories and geographies. The company has invested in a shift of its store layout from product-focused to project-focused, with the expectation that the changes will create a more intuitive shopping experience for customers. Despite the price action last week, LOW is up 25% for the year.

“Strong execution enabled us to meet continued broad-based demand, as we delivered over 15% growth in all merchandising departments, over 20% growth across all geographic regions. and triple-digit growth online. We continued to invest in the future growth of the company, including a $100 million investment in the quarter as part of an ongoing effort to reset the layout of our U.S. stores, making them easier to shop with improved product adjacencies, especially for Pro customers. Our omni-channel transformation continued in the third quarter with further investments in Lowes.com and our supply chain. I remain confident that we are making the right strategic investments to deliver sustainable, long-term growth. I would also like to thank our outstanding frontline associates for their unwavering commitment to customer service and safety,” commented CEO Marvin R. Ellison.

Mr. Ellison also touched on Lowe’s capital allocation program, “During the quarter, we reinstated our share repurchase program and repurchased 3.6 million shares in the open market for $621 million. I continue to expect our share repurchase program to be a significant contributor to long-term shareholder value creation. We incurred capital expenditures of $462 million as we invest in the business to support our strategic initiatives, including our omnichannel capabilities. In October, we took advantage of a favorable interest rate environment to reduce our interest expense through a cash tender offer for $3 billion of our higher coupon bonds. As a result, we recognized a loss of $1.1 billion on the extinguishment of debt. To fund the tender offer, we issued $4 billion of unsecured notes. This issuance consisted of 7-, 10- and 30-year notes with a weighted average interest rate of 2.17%, which is a record low in the company’s history. These efforts further strengthen our capital position by lowering our interest expense over the longer term.”

In addition to the pandemic forcing much of society to spend more time at home, driving many to tackle long-delayed home improvement projects, Lowe’s continues to benefit from similar tailwinds driving homebuilders as low interest rates drive a transition for many into larger homes. The timing of such events is rather fortuitous as efforts in recent years to improve the company’s supply chain and working capital management have allowed it to thrive in the current environment. Operational momentum is likely to continue for the foreseeable future, and we think management’s focus to sustain higher returns on capital warrant more of a premium multiple for LOW shares versus the historical range. We have raised our Target Price to $185.

Despite reporting a much-better-than-expected quarter Friday, shares of **Foot Locker** (FL – $39.28) fell almost 5%. We shook our heads at the end-of-the week action, but we do note that before Friday’s selling, FL had been up 50% since August 5. For fiscal Q3 2021, FL realized adjusted EPS of $1.21, more than 84% greater than the consensus analyst estimate. Revenue for the period outpaced expectations by 8.6% (the revenue number was $2.11 billion). Same-store sales rose 7.7% in the quarter. By category, apparel was up double digits led by the “stay at home comfort trend,” while footwear increased high-single digits with men’s basketball shoes and boots offsetting softness is court and casual styles. Digital sales jumped more than 50% during the period, and we think strong performance will continue in this area for the holidays.

“We delivered a strong top- and bottom-line performance in the third quarter, underscoring the strength of our in-store and online product assortments and the resilience of the Foot Locker, Inc. brands,” said CEO Richard Johnson. “Although the back-to-school selling season kicked in later

than usual due to COVID-19-related delays, momentum built as the quarter progressed, and we were pleased with our customers' continued strong engagement across our family of brands. Our teams again executed well in a dynamic environment and did a tremendous job maintaining a seamless, safe, and exciting shopping experience for our customers."

"With close to $2 billion in liquidity, we believe our company is well prepared both financially and operationally to continue navigating the ongoing pandemic," added FL CFO Lauren Peters. "Looking ahead, with over 10% of our store fleet temporarily closed due to COVID restrictions, we are taking proactive measures for the upcoming holiday period to deliver outstanding experiences both in our stores and online, while ensuring the safety of our team members and customers."

While the near-term continues to be filled with headwinds and uncertainties, we believe that Foot Locker has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think longer-term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. Our Target Price for FL has jumped to $67.

Shares of **Kulicke & Soffa** (KLIC – $30.05), a manufacturer of equipment for use in the semiconductor business, gained 6% last week, even as fiscal Q4 2020 EPS missed estimates. The company reported EPS of $0.25 and adjusted EPS of $0.04 (due to amortization of intangible assets related to the Tax Cuts and Jobs Act of 2017), compared with the analyst consensus estimate of $0.30. KLIC, however, reported a strong demand environment and 'dynamic' macroeconomic situation.

CEO Fusen Chen said, "We are also pleased with our pace of development, new product traction and the improving state of our core business. Our global development teams continue to make significant and meaningful progress on several fronts, increasing our long-term alignment with significant technology transitions impacting the semiconductor assembly market, the automotive market and the display market… As we execute toward the long-term trends supporting advanced packaging, automotive and display, we also anticipate a more fundamental recovery in our core businesses driven by an improving semiconductor unit growth rate. As a reminder, semiconductor unit production declined steeply in early fiscal year 2019, which dramatically reduced the industry's need for incremental equipment capacity. This extended decline in production is historically uncommon and seems to be behind us. Based on our September results, near-term outlook and recent customer feedback, we continue to anticipate an ongoing unit-driven recovery throughout fiscal 2021 and expect unit growth, excluding advanced LED, to return to a more normal growth rate over the coming years."

Mr. Chen continued, "Looking into the December quarter, we anticipate general semiconductor and LED to be the primary drivers of near-term demand. We anticipate strong demand through the December quarter, which again suggests fiscal 2021 will not follow a historical seasonal

pattern. Operationally, we are focused on ramping production levels to satisfy the strong demand level anticipated for December. Over the past few years, the broader industry and macro environment was challenging, although the strength of our balance sheet and market positions allowed us to execute our market expansion strategy, create new long-term growth vectors and return capital to investors."

KLIC expects revenue between $230 million and $250 million next quarter with EPS in the $0.48 to $0.58 range, well above analyst projections. We expect the company to continue to benefit from widespread 5G deployment, while the specialized nature of KLIC's equipment offers a lower-than-average threat of new market entrants. We were pleased to see the strong EPS guidance for Q1, which would be double Q1 last year at its midpoint. The balance sheet also has more than $500 million of net cash and the stock sports a 1.6% dividend yield. Our Target Price is now $34.

Despite posting sensational fiscal Q4 results, shares of protein producer **Tyson Foods** (TSN – $60.74) fell more than 2% last week as the company garnered negative press. While we currently don't know the validity of the reports and note that companies often have lawsuits brought against, litigation was filed by the son of a former employee that died of COVID-19, accusing managers of misleading employees about the dangers at Tyson's large pork producing facility in Iowa, and there have been rumors that managers were betting on how many associates might get COVID-19. The company says it has brought in outside counsel and launched an investigation, while suspending people while the review occurs. Time will tell what the ramifications will be and if allegations prove true.

Looking at the latest quarter, Tyson reported adjusted EPS of $1.81, more than 50% greater than the consensus analyst estimate, on revenue of $11.46 billion, which was about 4% better than expectations. Despite continued elevated costs from COVID-19, including sanitation, protective equipment, testing, plant downtime and employee bonuses, TSN expanded operating margins to 7.4%. The company benefited from strong results in beef and pork, while the chicken business still is a ways from a full recovery. We would expect as we move further into 2021 that the company will see its food-service segment pick up, and the beef and pork segment could see a bit of decrease in margins more towards a normalized rate.

Fourth Quarter Accomplishments

- **Continued strength at retail; foodservice still in recovery**
  - Tyson retail core business lines continue to increase volume and share; lead top 10 food manufacturers
  - With over 120% e-Commerce growth Q4'20 vs. Q4'19, Tyson has now achieved an estimated $1+ billion in annual sales thru e-commerce channel partners
- **Strong Beef, Pork, and Prepared Foods results offset softness in Chicken**
- **African Swine Fever continues to present potential opportunities**
- **International business presents continued growth and synergy prospect by leveraging the "One Tyson" framework**
  - Recently announced new production capacity will help us serve emerging markets and strategic customers
- **Cost reduction initiatives will fuel future growth across the enterprise**

Tyson Foods, Inc. 6

"Our business performed well and delivered strong fourth quarter and full-year results," said CEO Dean Banks. "Our team members, agricultural partners, and customers have shown resilience. This has enabled us to maintain and accelerate our efforts to provide global consumers with a safe and accessible food supply…While we will continue to face pandemic-related challenges in fiscal 2021, we're settling the business down to be focused on executing our long-term strategy while generating strong returns for shareholders. I'm excited for the opportunities ahead for this great company, and am certain we have the people, products, and strategies in place to drive future growth."

While operational headwinds aren't going anywhere, we believe Tyson should benefit from positive trade developments as the African Swine Fever has caused a global pork shortage especially in Asia. We believe that TSN is well positioned to supply China with pork and other proteins and back fill other markets. The near-term is definitely murky, but we like the long-term potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as citizens step up in socioeconomic class. Tyson's dividend yield is now 2.9% and our Target Price now resides at $93.

General merchandise discount store chain **Target** (TGT – $172.31) set another record high for the year last week after reporting terrific fiscal Q3 2021 results. The retailer earned $2.79 per share, $1.19 ahead of the analyst consensus estimate, and had revenue of $22.3 billion, $1.6 billion ahead of the consensus. Despite the challenges associated with the pandemic, TGT saw growth in every one of its core categories, as well as bigger basket sizes online and in store. The company observed that customers have been making fewer trips to stores but are spending more in those trips and are making wide us of same-day services like Pick Up, Drive Up and Shipt.

"As we build our plans for the fourth quarter, our team focused first on flexibility and agility, knowing how volatile and unpredictable the external environment continues to be. We focused on leveraging Target's strengths, including the emotional connection between our brands and our guests and the convenience and speed of our stores-as-hub model. We're focused on listening to our guests to understand what they're experiencing, and they've told us that safety is one of their top concerns. So on top of our goal to be the easiest place to shop, we're committed to being the safest place to shop as well," said CEO Brian Cornell, "In support of that goal, we've implemented a number of technology improvements to make shopping at Target more contact-free…In addition, we have altered our promotional cadence to avoid events that typically cause crowd. And we announced that we'll be closed on Thanksgiving and open at the regular time on Black Friday. Rather than concentrating holiday deals around Thanksgiving and Black Friday, we've spread our Black Friday offers throughout the entire month of November with weekly promotions spread across different categories throughout the month. And in the spirit of transparency and trust, we've assured our guests that they see any of our Black Friday items for a lower price later in this season, we'll happily make up the difference through our extended price match policy."

Mr. Cornell concluded, "When I arrived at Target a little more than 6 years ago, I already knew that Target is an academy company, a place that attracts and develops the level of talent that's the envy of other companies. That was already true before I arrived, and I couldn't be more proud of the team investments we've made in recent years, investments intended to cement Target's position as an inclusive home for top talent. What I didn't appreciate until I became and immersed with this team is the warmth of the culture and the team's sincere desire for Target to play a positive role in the world. This desire often shows through in our marketing and our assortment and you could certainly see it in our stores. But for those of us who had the privilege of working with every part of this team, we see it every day behind the scenes even when no one else is looking."

CFO Michael Fiddelke added comments on TGT's dividend, "As always, the timing and quantity of repurchase activity will be governed by our decades-long capital deployment goals: we first look to fully invest in projects that meet our strategic and financial criteria; second, we support our dividend and look to build on our nearly 50-year record of annual increases in our dividend per share; and finally, we deploy any excess cash beyond the first 2 uses to repurchase our shares within the limits of our middle A credit ratings. We paid dividends of $340 million in the third quarter, reflecting a 3% increase in the dividend per share, partially offset by a decline in share count."

Target lifted the share repurchase suspension announced in Q1 and expects to repurchase stock again after the holiday season, keeping in mind that evolving COVID dynamics may influence the timing. While TGT's valuation metrics aren't cheap, we continue to hold our shares due to the diversification and stability they offer to our broadly diversified portfolios. After analyst EPS revisions in the upward direction, TGT's forward price-to-earnings ratio is 20.5, which we think is reasonable compared to its peers. TGT shares yield 1.6% and our Target Price has been hiked to $189.