Market Commentary Monday, December 7, 2020

December 6, 2020

EXECUTIVE SUMMARY

Newsletter Purchases – Three Stocks for Two Portfolios
Week in Review – Value Tops Growth
Health News – Skyrocketing Cases vs. Promising Vaccines
Econ Update – Mixed Numbers
Econ Forecast – OECD Sees Brighter Outlook
Perspective – Bear & Bull Markets
Historical Evidence – Room for Value to Outperform
Stock News – Updates on LRCX, QCOM, MU, HPE, NTAP, KSS & KR

Market Review

A little housekeeping before this week's missive. As discussed in the December edition of *The Prudent Speculator,* we picked up the following for our two hypothetical portfolios on Friday, December 4.

PruFolio
126 **HollyFrontier** (HFC – $28.55) at $27.66

Millennium Portfolio
65 **Foot Locker** (FL – $41.67) at $40.72
48 **Regency Centers** (REG – $49.08) at $48.77

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It was a lousy start, but a wonderful end to another terrific week for Value indexes. After trailing in the weekly returns race by 130 basis points (1.30 percentage points) following Monday's sizable skid of 1.22%, the Russell 3000 Value index made up that deficit and then some, ending the week with a 1.94% total return, compared to a 1.63% total return for the Russell 3000 Growth index.

THE PRUDENT SPECULATOR

VALUE RENAISSANCE

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

Total Returns Matrix

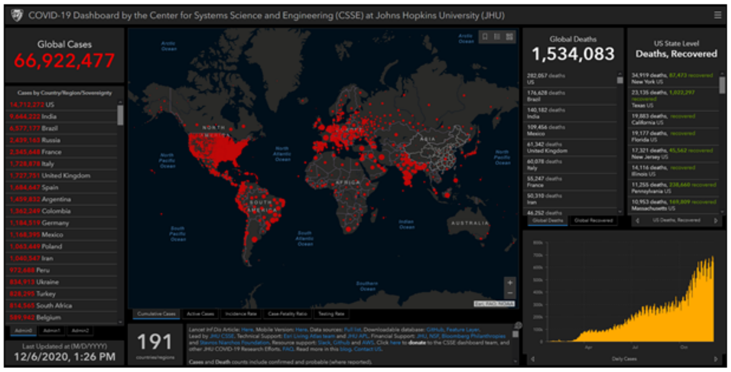
Last Week	Since 10.31.20	Since 9.30.20	Since 8.31.20	Since 7.9.20	Since 3.23.20	YTD	Last 12 Months	Last 24 Months	Last 36 Months	Last 60 Months	Name
0.31	2.13	2.23	1.86	4.16	11.30	8.08	8.52	17.12	14.61	25.19	Bloomberg Barclays Global-Aggregate Bond
-0.42	0.49	0.04	-0.01	0.00	5.74	6.84	6.78	17.69	16.43	23.28	Bloomberg Barclays US Aggregate Bond
1.16	14.44	9.28	6.90	18.67	65.21	8.28	11.87	26.61	33.42	91.05	Dow Jones Industrial Average
1.60	16.27	13.94	11.18	21.96	67.24	6.12	9.92	24.46	23.61	58.35	New York Stock Exchange Composite
1.63	12.38	8.82	3.85	17.29	80.32	33.85	39.35	69.74	81.35	141.77	Russell 3000 Growth
1.94	**17.43**	**16.21**	**13.21**	24.42	**64.14**	**1.99**	**5.55**	**18.80**	**18.67**	**54.15**	**Russell 3000 Value**
1.78	14.80	12.32	8.23	20.68	73.18	18.40	22.90	43.94	48.97	96.01	Russell 3000
2.33	18.30	17.57	14.60	27.31	78.88	11.99	16.13	33.40	35.24	78.50	S&P 500 Equal Weighted
1.72	13.36	10.35	6.15	18.16	67.45	16.50	21.08	42.44	48.54	95.50	S&P 500
1.64	11.55	8.12	3.06	16.30	74.58	30.40	35.43	59.73	73.67	127.47	S&P 500 Growth
1.85	**16.18**	**13.85**	**11.13**	21.05	**57.98**	**0.79**	**4.84**	**23.04**	**22.40**	**60.78**	**S&P 500 Value**
2.32	14.96	12.92	9.93	20.70	86.61	27.07	31.20	52.21	58.25	102.08	S&P 500 Pure Growth
2.73	**25.39**	**27.53**	**22.78**	39.36	**87.21**	**-7.52**	**-3.74**	**4.77**	**3.45**	**38.33**	**S&P 500 Pure Value**
-0.09	14.59	8.65	6.10	29.39	42.69	2.14	5.93	10.10	17.46	69.51	Berkshire Hathaway B

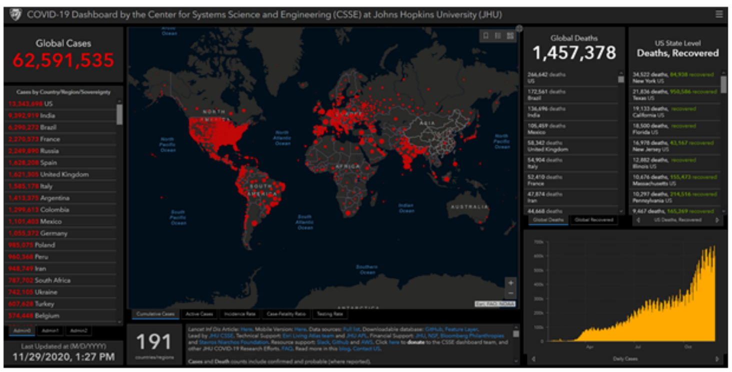
As of 12.04.20. Source Kovitz using data from Bloomberg

Needless to say, we are pleased to see the resurgence of interest in inexpensively priced stocks, especially as near-term news on the health front remains awful around the world,…

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASES AND DEATHS ACCELERATING





https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

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 4.3 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 282,000 fatalities. While deaths obviously lag cases, and the United States is experiencing a nationwide spike in those diagnosed with the virus, the weekly increase in the worldwide fatality count rose by more than 76,000 from the 61,000 range three week's prior, though the "confirmed case" mortality rate of 2.29% continues to decrease.

…and here at home.

Of course, the stock markets are forward-looking mechanisms, and we know that game-changing help in the form of vaccines is coming,…

THE PRUDENT SPECULATOR

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.

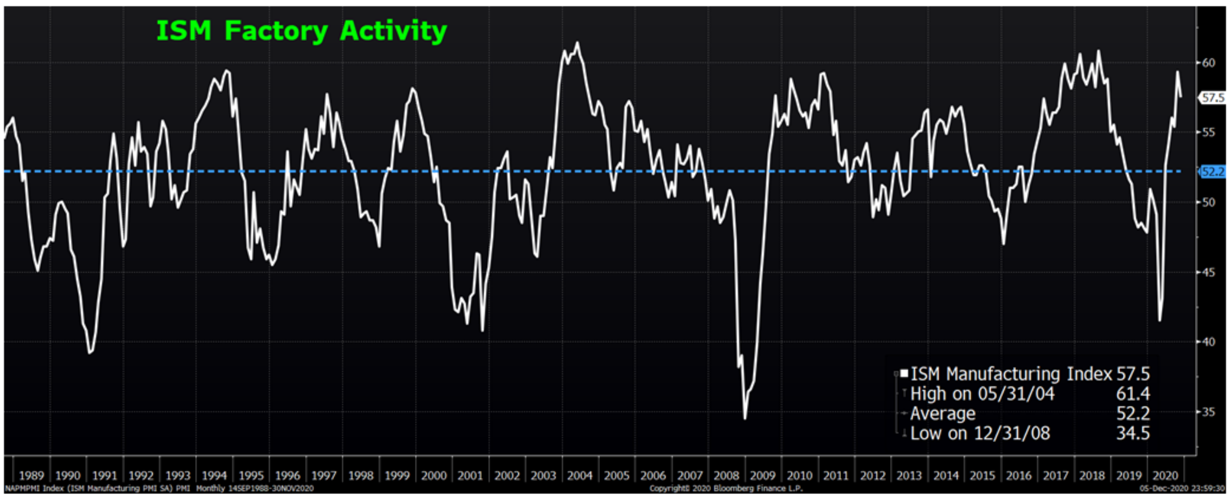
It is widely expected that the FDA will then issue an emergency use authorization for the two-dose vaccine, which has been shown to be highly effective in preventing Covid infections. Officials have said they hope to begin vaccination of health workers — who will be at the front of the line for the limited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

…while the U.S. economy has continued to hold up remarkably well, all things considered, with solid readings last week on the state of the manufacturing sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING VERY HEALTHY: 4.3% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector pulled back to a weaker-than-expected 57.5 in November, though the tally is far above the 11-year-low of 41.5 set seven months prior and well above average for the 30-year history of the gauge, with the Institute for Supply Management stating, "The past relationship between the PMI and the overall economy... corresponds to a 4.3% increase in real gross domestic product (GDP) on an annualized basis."



…and the service sector,…

THE PRUDENT SPECULATOR

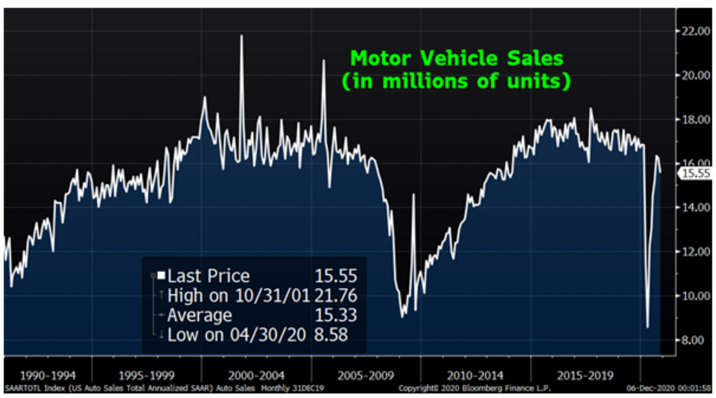
ISM NON-MANUFACTURING RETREATS: 2.5% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector pulled back modestly to a weaker-than-expected 55.9 in November, down from 56.6 in October. The figure 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 2.5% increase in real gross domestic product (GDP) on an annualized basis."

…even as other numbers were mixed,…

THE PRUDENT SPECULATOR

MIXED ECONOMIC NUMBERS



Continuing the bounce in the manufacturing sector after coronavirus-related shutdowns, factory orders for October rose for a sixth straight month, climbing by a stronger-than-expected 1.0%. Meanwhile, sales of cars and trucks slowed in November, with the seasonally adjusted annualized rate for light vehicles sold estimated at 15.55 million units, according to Wards Intelligence. The tally still beat the 15.3 million average over the past three decades.

…and the headline monthly payrolls number trailed expectations,…

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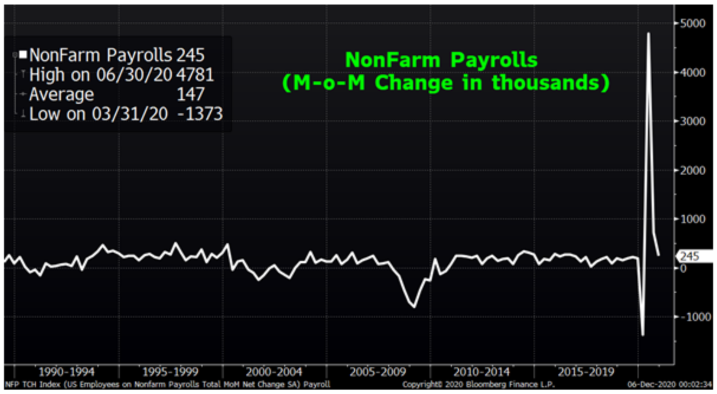
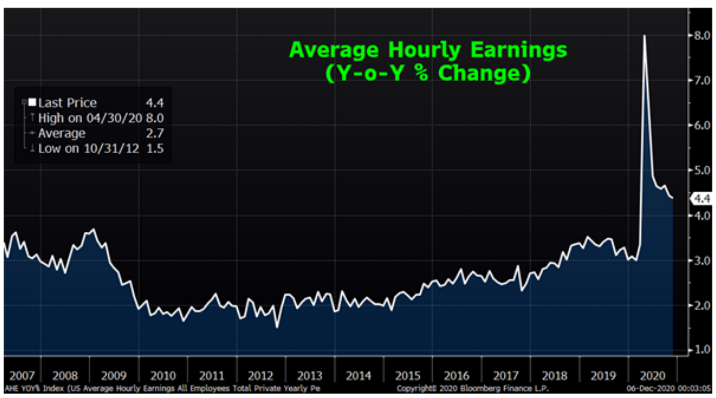
WEAKER-THAN-EXPECTED LABOR REPORT



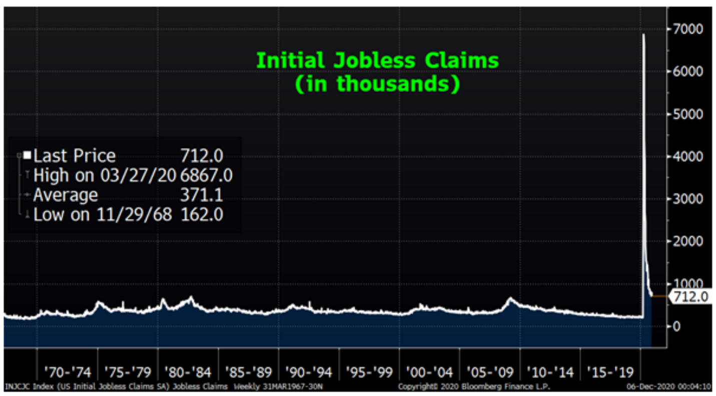


Economists were looking for a gain of 432,000 payrolls, so the increase of 245,000 in November (well above the historical monthly average of 147,000) lagged expectations, with a nearly 100,000 drop in government jobs the primary culprit. There are still millions out of work but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 4.4% on a year-over-year basis.

…even as the unemployment rate and latest jobless claims numbers came in better than forecast.

THE PRUDENT SPECULATOR

LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW IMPROVEMENT



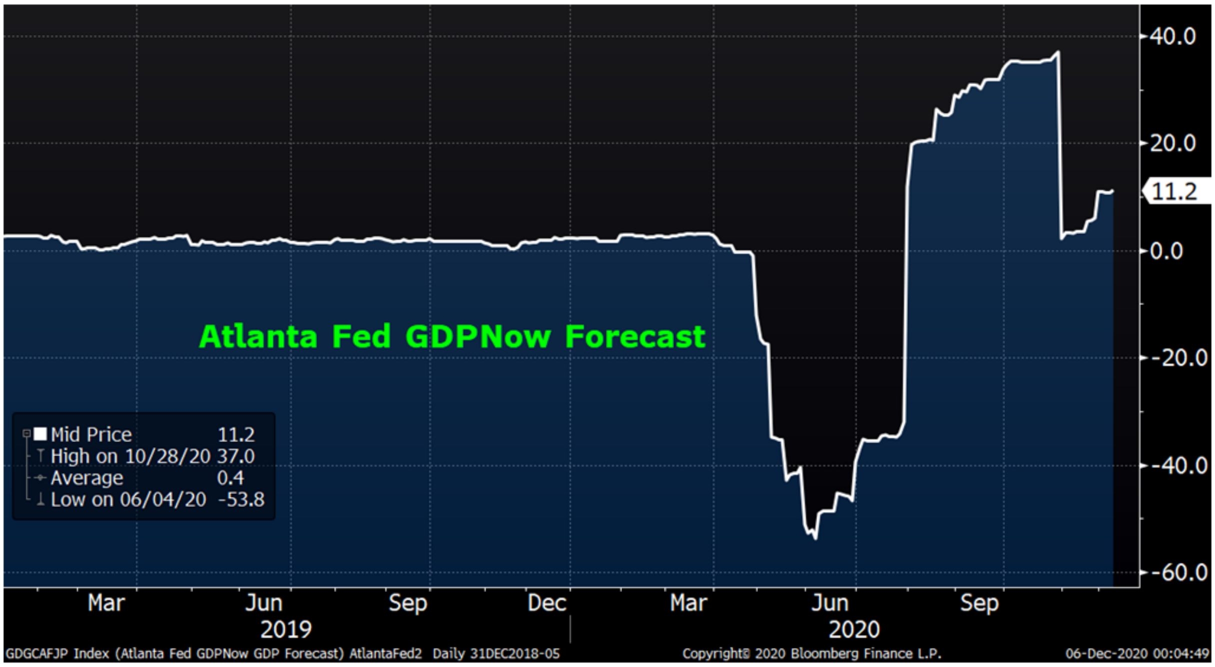
While there is still some noise in the calculations, the jobless rate for November came in better than expected at 6.7%, continuing to improve from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits in the latest week (included Thanksgiving) declined to 712,000, better than projected, while the total for the last 37 COVID-19-impacted weeks rose to more than 69 million.

Interestingly, the outlook for Q4 U.S. GDP growth, at least per calculations from the Federal Reserve Bank of Atlanta, remains fairly robust,…

THE PRUDENT SPECULATOR

HEALTHY 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 healthy 11.2% increase in GDP in Q4 GDP on an annualized basis.



…while Washington continues to debate additional economic stimulus measures to tide many Americans over until the vaccines allow the country…and the world…to return to a more normal environment.

THE PRUDENT SPECULATOR

OECD – GLOBAL OUTLOOK IS LOOKING BRIGHTER

The last official projection from the Fed is now two months old, but Jerome H. Powell & Co. were looking for U.S. GDP growth of 4.0% and 3.0% in 2021 and 2022, respectively, not too dissimilar from the estimates out last week from the OECD.

OECD Economic Outlook projections

Real GDP growth

%, year-on-year

	2020	2021	2022		2020	2021	2022
World	-4.2	4.2	3.7	**G20**	-3.8	4.7	3.7
Australia	-3.8	3.2	3.1	**Argentina**	-12.9	3.7	4.6
Canada	-5.4	3.5	2.0	**Brazil**	-6.0	2.6	2.2
Euro area	-7.5	3.6	3.3	**China**	1.8	8.0	4.9
Germany	-5.5	2.8	3.3	**India***	-9.9	7.9	4.8
France	-9.1	6.0	3.3	**Indonesia**	-2.4	4.0	5.1
Italy	-9.1	4.3	3.2	**Mexico**	-9.2	3.6	3.4
Japan	-5.3	2.3	1.5	**Russia**	-4.3	2.8	2.2
Korea	-1.1	2.8	3.4	**Saudi Arabia**	-5.1	3.2	3.6
United Kingdom	-11.2	4.2	4.1	**South Africa**	-8.1	3.1	2.5
United States	-3.7	3.2	3.5	**Turkey**	-1.3	2.9	3.2

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Note: *Fiscal years starting in April.
Source: OECD Economic Outlook 108 database.

OECD

Looking ahead, the latest Economic Outlook and commentary from the Organisation for Economic Co-operation and Development was relatively upbeat,…

THE PRUDENT SPECULATOR

OECD ECONOMIC OUTLOOK: HOPE FOR A BRIGHTER FUTURE

For the first time since the pandemic began, there is now hope for a brighter future. Progress with vaccines and treatment have lifted expectations and uncertainty has receded. Thanks to unprecedented government and central bank action, global activity has rapidly recovered in many sectors, though some service activities remain impaired by physical distancing. The collapse in employment has partially reversed, but large numbers of people remain underemployed. Most firms have survived, albeit financially weakened in many cases. Without massive policy support, the economic and social situation would have been calamitous. The worst has been avoided, most of the economic fabric has been preserved and could revive quickly, but the situation remains precarious for many vulnerable people, firms and countries.

The road ahead is brighter but challenging. At the time of writing, the global death toll has risen to 1½ million, subsequent waves have hit many countries and the first one continues unabated in others. While waiting for effective vaccinations to be widely distributed or some breakthrough in treatment, hopefully in the course of 2021 for most, managing the pandemic will still impose strains on the economy. Economic activity will continue with fewer face-to-face interactions and partly-closed borders for a few more quarters. Some sectors will regain strength, others will be on standstill. Developing or emerging-market economies, where tourism is important, will continue to see their situation deteriorate and will require more international aid. Policies will have to continue to sustain economic activity forcefully, all the more so with the end of the health crisis in sight.

The global economy will gain momentum over the coming two years, with global GDP at pre-pandemic levels by the end of 2021. After a sharp decline this year, global GDP is projected to rise by around 4¼ per cent in 2021 and a further 3¾ per cent in 2022. Scientific progress, pharmaceutical advances, more effective tracing and isolation, and adjustments in the behaviour of people and firms will help keep the virus in check, allowing restrictions on mobility to be lifted progressively. Importantly, policies to support jobs and firms, in place since the beginning of the pandemic, will enable a faster rebound when restrictions are lifted. Together with reduced uncertainty, these improvements should encourage the use of accumulated savings to fuel consumption and investment. The exceptional fiscal relief provided throughout 2020 - and needed beyond - will pay off handsomely. The rebound will be stronger and faster as more and more activities re-open, limiting the aggregate income loss from the crisis.

We project the recovery will be uneven across countries, potentially leading to lasting changes in the world economy. The countries and regions with effective test, track and isolate systems, where vaccination will be deployed rapidly, are likely to perform relatively well, though the overall weakness of global demand will hold them back. China, which started recovering earlier, is projected to grow strongly, accounting for over one-third of world economic growth in 2021. OECD economies will rebound, growing at 3.3% in 2021, but recovering only partially from the deep 2020 recession. The contribution of Europe and North America to global growth will remain smaller than their weight in the world economy.

The outlook continues to be exceptionally uncertain, with both upside and downside risks. On the upside, efficient vaccination campaigns and better co-operation between countries could accelerate the distribution of the vaccine worldwide. Conversely, the current resurgence of the virus in many places reminds us that governments may be forced again to tighten restrictions on economic activity, especially if the distribution of effective vaccines progresses slowly. And confidence would take a hit if vaccine distribution or secondary effects proved disappointing. The toll on the economy could be severe, in turn raising the risk of financial turmoil from fragile sovereigns and corporates, with global spillovers.

…even as we think all the uncertainty that exists these days makes even more timely the John Kenneth Galbraith quotation, “The only function of economic forecasting is to make astrology look respectable.”

So, we remain braced for increased volatility, and we never forget that while stocks have proved to be a very rewarding asset class through the years, they move in both directions,…

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

S&P 500 Moves (on a Closing Basis) of 20% Without a Comparable Move in the Other Direction

					2/20/1928	9/16/1929	87.97%	BULL
9/16/1929	11/13/1929	-44.57%	BEAR		11/13/1929	4/10/1930	46.77%	BULL
4/10/1930	12/16/1930	-44.29%	BEAR		12/16/1930	2/24/1931	25.83%	BULL
2/24/1931	6/2/1931	-32.86%	BEAR		6/2/1931	6/26/1931	25.82%	BULL
6/26/1931	10/5/1931	-42.54%	BEAR		10/5/1931	11/9/1931	30.61%	BULL
11/9/1931	6/1/1932	-61.81%	BEAR		6/1/1932	9/7/1932	111.59%	BULL
9/7/1932	2/27/1933	-40.60%	BEAR		2/27/1933	7/18/1933	120.61%	BULL
7/18/1933	10/19/1933	-29.43%	BEAR		10/19/1933	2/6/1934	37.28%	BULL
2/6/1934	3/14/1935	-31.81%	BEAR		3/14/1935	3/10/1937	131.64%	BULL
3/10/1937	3/31/1938	-54.47%	BEAR		3/31/1938	11/9/1938	62.24%	BULL
11/9/1938	4/11/1939	-24.44%	BEAR		4/11/1939	10/25/1939	26.78%	BULL
10/25/1939	6/10/1940	-31.95%	BEAR		6/10/1940	11/7/1940	26.70%	BULL
11/7/1940	4/28/1942	-34.42%	BEAR		4/28/1942	5/29/1946	157.70%	BULL
5/29/1946	5/19/1947	-28.47%	BEAR		5/19/1947	6/15/1948	23.89%	BULL
6/15/1948	6/13/1949	-20.57%	BEAR		6/13/1949	8/2/1956	267.08%	BULL
8/2/1956	10/22/1957	-21.63%	BEAR		10/22/1957	12/12/1961	86.35%	BULL
12/12/1961	6/26/1962	-27.97%	BEAR		6/26/1962	2/9/1966	79.78%	BULL
2/9/1966	10/7/1966	-22.18%	BEAR		10/7/1966	11/29/1968	48.05%	BULL
11/29/1968	5/26/1970	-36.06%	BEAR		5/26/1970	1/11/1973	73.53%	BULL
1/11/1973	10/3/1974	-48.20%	BEAR		10/3/1974	11/28/1980	125.63%	BULL
11/28/1980	8/12/1982	-27.11%	BEAR		8/12/1982	8/25/1987	228.81%	BULL
8/25/1987	12/4/1987	-33.51%	BEAR		12/4/1987	3/24/2000	582.15%	BULL
3/24/2000	9/21/2001	-36.77%	BEAR		9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR		7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR		10/9/2002	10/9/2007	101.50%	BULL
10/9/2007	11/20/2008	-51.93%	BEAR		11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR		3/9/2009	2/19/2020	400.52%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR		3/23/2020	12/4/2020	65.33%	BULL
Average Drop		-34.83%			**Average Gain**		108.59%	

SOURCE: Kovitz using data from Bloomberg

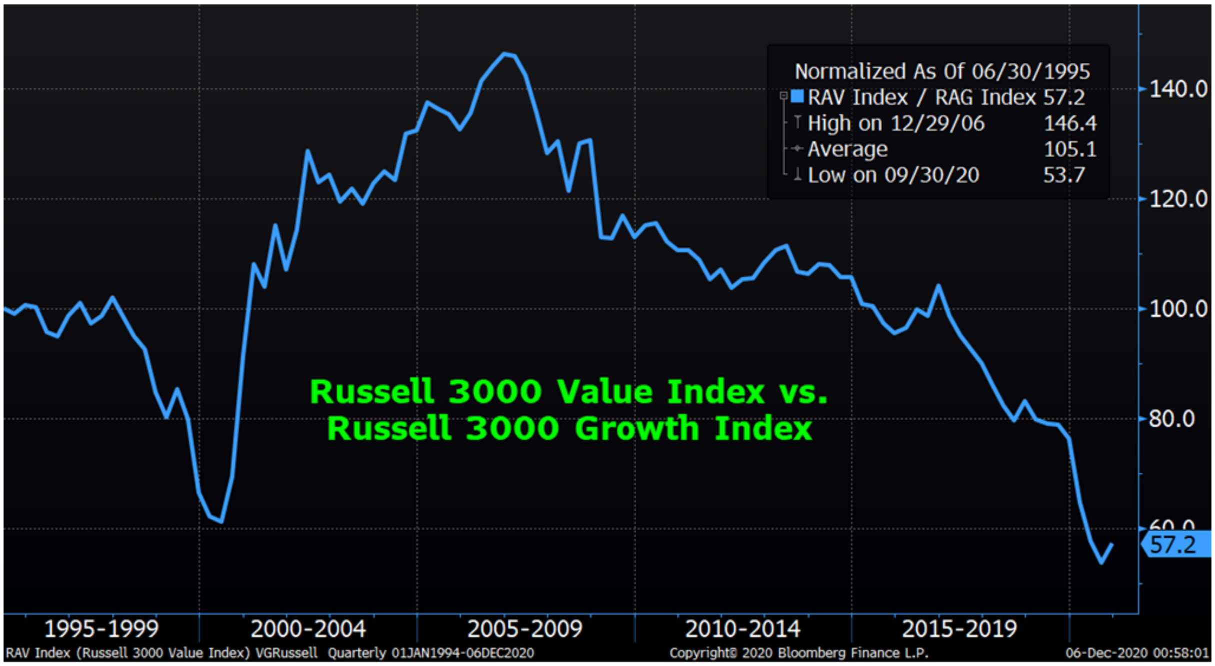
While investors suffered a stomach-churning 5-week Bear Market plunge of 33.92% in the S&P 500 from 2.19.20 to 3.23.20, the eighth drop of 20% or greater since the launch of *The Prudent Speculator* in 1977, those who stayed the course are in Bull Market #9. Happily, history shows that on average far more money has been made during the rallies than has been lost in the downturns.

…but we continue to believe that there is a lot of room for Value to close the recent returns race gap,…

THE PRUDENT SPECULATOR

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

Stocks with inexpensive financial metrics have enjoyed terrific absolute and relative performance of late, but the R3K Value index relative to the R3K Growth index on a total return basis is still below 2000 levels.



…much less reclaim its historical place at the top of the performance scorecard.

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%	111.5%	980	27	3.4	3/23/2020	12/4/2020
17.5%	66.9%	572	39	2.3	3/23/2020	12/4/2020
15.0%	66.6%	557	45	2.0	3/23/2020	12/4/2020
12.5%	44.4%	334	72	1.3	3/23/2020	12/4/2020
10.0%	34.9%	245	98	0.9	3/23/2020	12/4/2020
7.5%	23.6%	148	157	0.6	9/23/2020	12/4/2020
5.0%	14.7%	72	306	0.3	10/30/2020	12/4/2020

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

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	12.8%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.4%	18.1%
Non-Dividend Paying Stocks	9.0%	29.4%
Long-Term Corporate Bonds	6.1%	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 10.31.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of 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

Stock Updates

Jason Clark, Chris Quigley and Zach Tart look at 7 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*.

Shares of semiconductor equipment manufacturer **Lam Research** (LRCX – $499.98) breached our Target Price last week on a surge of more than 9% over the past 5 trading days. The rollout of 5G and other high-performance computing applications is still very supportive of demand for capital equipment due to the increasing complexity of chip design which we do not expect to slow for the foreseeable future. Still, with the stock rallying 170% YTD, we are mindful of valuation now that the NTM PE is on the higher end of the stock's historical range: approaching 22 times consensus analyst estimates.

We continue to like that Lam operates in a consolidated industry, with tough barriers to entry due to its capital-intensive nature and significant technical capability requirements. The firm also continues to compete for market share against the other major players even as there are risks owing to unresolved diplomatic obstacles due to outsized exposure to Chinese sales. As such, we recommend for those with large position sizes (i.e. north of 1.5% or so) to reduce their positions in the stock to a "normal" level. For us, "normal" in a broadly diversified portfolio equals roughly 1.2%. Our Target Price for our remaining LRCX has been bumped to $520 for the time being.

Semiconductor designer **Qualcomm** (QCOM – $145.01) also surged past our Target Price last week thanks to continued strength in the Tech space and the well-received launch for the company's Snapdragon 888 processor. The Snapdragon 888 processor is QCOM's flagship 5G mobile platform, which excels at connectivity and gaming, while sporting a sharp camera and powerful onboard security features. Qualcomm trades for more than 22 times forward earnings and yields 1.7%, but analysts expect EPS to grow from $4.19 in 2020 to $7.00 in 2021 and more than $8.00 by 2023, so we are continuing to hold. QCOM also scores well in our proprietary quantitative framework. Our Target Price has been increased to $168.

Memory maker **Micron Technology** (MU – $73.34) pre-announced fiscal Q1 results, sending shares soaring on the bullish report. Micron expects adjusted revenue between $5.70 billion and $5.75 billion, with adjusted EPS between $0.69 and $0.73. The gross margin was also boosted to a range of 29.5% and 30.5%. The final quarterly report is scheduled for release on December 17. Micron shares have gained nearly 20% in the past month and more than 110% since this year's low on March 16.

At the 24th Annual Credit Suisse Technology Conference, CEO Sanjay Mehrotra said, "We saw strength versus our prior expectations in the earnings call last time with respect to the guidance we had provided. We saw strength pretty much across the board. We saw strength in mobile, in auto, in industrial, in PC. As we had expected, cloud was healthy for us. Of course, enterprise continue to be weak, just like we had stated in our last earnings call that enterprise environment is overall weak. I'm pleased with how Micron executed with strength both coming from DRAM and NAND, strength coming in terms of volume in DRAM and NAND as well as with respect to pricing."

Mr. Mehrotra continued, "And when I look at DRAM beyond the seasonally weak calendar first quarter, I expect that strength will continue to build up in DRAM through the course of the year with all the industry supply considerations, but more importantly, all the demand drivers that continue to build up nicely for DRAM. Whether it is in the cloud or it is on the edge, DRAM will do well for us during the course of 2021. NAND side, while we saw the strength in volume and pricing better compared to our previous expectations of the guidance we had provided for the November quarter, NAND industry, as we have shared before, continues to be challenging. And of course, we have taken steps to manage our supply bit growth, as we have said, in calendar year '21 to be below the industry demand. I do believe that, overall, the NAND industry needs to continue to take actions to better manage the supply. Otherwise, in calendar year 2021, there may be some risk of supply exceeding demand for NAND. However, on the DRAM side, we continue to see strong fundamentals."

Mr. Mehrotra also added that he thinks enterprise demand will pick up next year as the world moves past the pandemic. We continue to like Micron, even as it has historically been on the more volatile end of our holdings in a business that can be feast or famine. The solid outlook and reasonable valuation metrics for the next several years leave us comfortable with our current position for the moment. The company also has a strong balance sheet. Our Target Price for MU has been boosted to $78, though we would not rule out a trim of the position in the near future.

Shares of **Hewlett Packard Enterprise** (HPE – $12.34) gained 3% after reporting decent fiscal Q4 2020 results. HPE earned $0.37 (vs. $0.35 est.) per share and had $7.21 billion (vs. $6.88 billion est.) of revenue. The company saw strong demand in the Storage and Intelligent Edge businesses, which helped push total revenue up 5% sequentially and roughly level year-over-year.

HPE CEO Antiono Neri commented "The global pandemic has forced businesses to rethink everything from remote work and collaboration to business continuity and data insight. Over the last several months, we have seen growing momentum in our businesses as customers increasingly turned to HPE for capabilities from edge to cloud. Our unique set of capabilities help our customers empower their workforces, deploy new resilient IT solutions and extract insight from critical data while leveraging and consuming these solutions more flexibly as a service."

Mr. Neri said, "As we have been transforming how we work, we have also recognized that we have an enormous opportunity for customers to transform and digitize their business to adapt and operate in a new world. Business continuity and success depend on solutions and advanced IT resiliency, empower more workforces securely, extend connectivity, reinvigorate customer engagement and enable business model evolution. Against this backdrop, HPE has delivered despite the challenging circumstances. We have brought new capabilities and experiences to our customers to meet their emerging needs. We have invested in both organic innovation and M&A that strengthen and differentiate our position in the market. We have acted quickly to protect our financial foundation and become a more agile company. And we have remained committed to our culture. We have asked a lot to our team this year, and I am personally immensely proud and grateful for the significant courageous contribution."

HPE also announced that it will move the HPE headquarters from San Jose, California to Houston, Texas. The move will not include any layoffs, while the Aruba headquarters will remain in San Jose and the 'innovation tech hub' will stay in San Jose. The move does not come as a surprise, as HPE has been working on building out a 440,000 square foot campus in CityPlace at Springwoods Village since last 2018.

We understand the skepticism regarding HPE's transition and frustration regarding the company's weak performance this year. We have waited patiently for many of our holdings to rework their businesses, which are often successful. However, most analysts and their price targets look a year (or so) out, and we think often fail to be sufficiently patient. We believe that HPE is headed in the right direction and we like the company's diverse offerings, including 5G networking, and potential to grow subscription revenue. Shares yield a very generous 3.9% and our Target Price has been bumped up to $17.

Shares of **NetApp** (NTAP – $59.99) jumped more than 12% last week following a well-received fiscal Q2 earnings report from the global cloud-led, data-centric software company. NTAP posted EPS of $1.05, versus estimates of $0.73, as revenue rose 3% on a year-over-year basis to $1.42 billion. The company saw strong demand in high-margin software, cloud services and recurring maintenance segments, while costs were kept down with a largely remote workforce.

CEO George Kurian explained, "In the second quarter, NetApp again delivered strong results, successfully executing against our plan to scale our cloud business while growing in the storage market. We also introduced significant new products and services which further advance our Data Fabric strategy. We are a primary beneficiary of the increasing importance of data and are uniquely positioned to help customers with their digital transformations. I am confident in our ability to drive long-term growth, extend our hybrid cloud leadership, and deliver value for customers, partners, and shareholders."

More importantly, in the eyes of investors, and a major reason for a big upgrade of its rating on the stock from a prominent Wall Street firm, NetApp said that it sees a better-than-expected top line of $1.34 billion to $1.49 billion in Q3, with the bottom-line EPS range of $0.94 to $1.02 ahead of the then-consensus forecast of $0.90.

NetApp bills itself as the "data authority for the hybrid cloud." That is, NTAP's products work as a neutral platform between any number of cloud vendors and on-premise environments. The company is #1 (according to Gartner) in general-purpose disk arrays and solid-state arrays, and calls Cisco, Microsoft, Oracle, VMWare, SAP, Citrix, Red Hat, IBM, Infosys, AWS and BMC among its partners. We think that NTAP's commodity hardware (i.e. non-proprietary) and proprietary software model remains attractive, especially as long-term market growth requires significant off-premise and hybrid cloud investments. We like the forward P/E under 15 and the now-projected return to EPS growth this fiscal year. Shares yield 3.2% and our Target Price has been hiked to $80.

Last week, **Kohl's** (KSS – $40.09) announced a partnership with Sephora to incorporate the beauty product company's shops inside 850 of its stores. The partnership seemingly parallels that of retail and makeup competitors **Target** (TGT – $175.03) and Ulta Beauty, which was announced in early November. We applaud the move to increase exposure to beauty products and as another effort, in addition to its partnership with Amazon for returns, that provides further reason for customers to visit stores despite the unwavering threat from online competition.

Shares soared 22% on the news, adding to big gains already experienced since news of COVID-19 vaccines hit the press. As we wrote in our most recent note last month, we think Kohl's balance sheet is rather healthy with enough cash and credit to withstand another round of lockdowns, should they impact sales more than expected. Analysts currently expect earnings per share to improve to $2.37 and $2.68 in fiscal 2022 and 2023, respectively. We've adjusted our Target Price for KSS upward to $50.

As happened last quarter, shares of **Kroger Co.** (KR – $34.47) fell roughly 5%, even as the company reported a solid Q3. The grocer earned $0.71 per share in the period (vs. the $0.67 expected by analysts), 51% higher than Q3 a year ago. Sales were $29.7 billion in Q3, sequentially lower versus Q2, but 6% higher year-over-year. Same store sales, excluding fuel, grew 10.9%, while precautions taken due to COVID-19 continue to drive strong digital sales, which grew 108%.

CEO Rodney McMullen commented, "We are more certain than ever that the strategic choices and investments made over the last 3 years have positioned us to meet the moment. And as a result of our strong performance and consistent market share gains, we are raising our guidance for the remainder of the year. We are also positioned to deliver beyond 2020 for our customers, associates and shareholders as we believe a number of the impacts of COVID-19 will be structural and lasting. As a result of the pandemic, we continue to see increased basket sizes and fewer customer visits. Customers across the country are still staying home and cooking at home is now part of the new routine. We are fulfilling our customers' growing demand for premium products as they seek joy and elevated experiences."

KR did agree to spend $1 billion toward the funding of retirement benefits for 33,000 of its union workers (for which it will take a $0.98 charge next quarter). Nevertheless, management was positive enough about the remainder of the year to raise its EPS guidance, and now expects between $3.30 and $3.35 per share for all of 2020.

CFO Gary Millerchip explained, "As a result of our continued strong performance, market share growth and the expectation of sustained trends in food at home consumption for the remainder of our fiscal year, we are raising our full year 2020 guidance. For the full year 2020, we expect total identical sales without fuel to be around 14% and adjusted EPS growth of 50% to 53%…Looking toward 2021, we believe that our performance will be stronger than we would have expected prior to the pandemic when viewed as a two-year stacked result for identical sales without fuel growth and as a compounded growth rate over 2020 and 2021 for adjusted earnings per share growth."

While competition remains stiff in the grocery space, we like that Kroger continues to remake itself and has moved more in the direction of being offensive versus defensive/reactive. Competitive headwinds won't die down anytime soon, but we are pleased to see the continued progress being made, and we believe there is more upside to be offered in KR shares. The stock trades at 11.2 times NTM adjusted EPS projections and its dividend yield of 2.4% is still attractive, especially relative to the 10-year U.S. Treasury yielding under 1%. Our Target Price for KR has been boosted to $41.