# Market Commentary Monday, January 18, 2021

January 18, 2021

**EXECUTIVE SUMMARY**

Newsletter Trades – Sold Portions of TGT & JWN
Patience – Stocks Have Always Overcome Disconcerting Headlines in the Fullness of Time
Econ News – Not so Great Near-Term Stats; Strong GDP Growth Likely in 2021
Washington Historical Evidence – "D" in the White House and "D" Control of Congress
Earnings – Significant Profit Growth Likely This Year
Valuations – Stocks, Especially Value, Very Attractive Considering the Interest Rate Climate
Value vs. Growth – Plenty of Room for the Inexpensive-Stock Outperformance to Continue
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on AVGO, LRCX, COHU, KLIC, INTC, BIG, DAL, BLK, C, PNC & JPM

**Market Review**

A little housekeeping before this week's missive. As discussed on Tuesday's *Sales Alert*, we sold 23 shares of **Target** (TGT – $194.80) in Buckingham Portfolio on Thursday, January 14, at $198.24, which is the price we will use to close out 36 and 107 TGT shares respectively held in Millennium Portfolio and PruFolio. Also, as discussed on Wednesday's *Sales Alert*, we closed out 160 shares of **Nordstrom** (JWN – $36.24) held in Millennium Portfolio on Friday, January 15, at $37.74.

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We could have done without Friday's miserable market day, but it was another nice week on the relative front for Value stocks, with the Russell 3000 Value index beating the Russell 3000 Growth index by 209 basis points. And, while nearly all the major market averages were in the red for the full five-trading-day period, the S&P 500 Pure Value index enjoyed a terrific weekly gain of 2.11%, compared to a drop of 1.93% for the S&P 500 Pure Growth index.

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VALUE RESURGENCE

## While six 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 | 2021 YTD | Since 10.31.20 | Since 7.9.20 | Since 3.23.20 | Last 12 Months | Last 2 Years | Last 3 Years | Last 5 Years | Name |
|---|---|---|---|---|---|---|---|---|---|
| -0.35 | -0.82 | 2.34 | 4.38 | 11.54 | 8.26 | 15.11 | 13.53 | 24.13 | Bloomberg Barclays Global-Aggregate Bond |
| 0.19 | -0.76 | 0.35 | -0.14 | 5.60 | 6.00 | 15.85 | 16.59 | 22.10 | Bloomberg Barclays US Aggregate Bond |
| -0.91 | 0.73 | 16.81 | 21.13 | 68.63 | 8.59 | 34.20 | 28.03 | 117.29 | Dow Jones Industrial Average |
| -0.46 | 2.63 | 20.39 | 26.31 | 73.20 | 8.71 | 32.31 | 21.37 | 83.08 | New York Stock Exchange Composite |
| -2.11 | -0.61 | 15.37 | 20.42 | 85.13 | 32.92 | 77.91 | 74.21 | 178.24 | Russell 3000 Growth |
| **-0.02** | **3.12** | **22.15** | **29.41** | **70.73** | **5.70** | **28.46** | **18.45** | **78.96** | **Russell 3000 Value** |
| -1.09 | 1.19 | 18.61 | 24.68 | 78.94 | 20.02 | 53.23 | 45.83 | 126.55 | Russell 3000 |
| -0.09 | 2.80 | 22.53 | 31.86 | 85.27 | 14.65 | 42.41 | 33.28 | 107.36 | S&P 500 Equal Weighted |
| -1.46 | 0.39 | 15.66 | 20.56 | 70.85 | 16.66 | 49.98 | 43.30 | 121.39 | S&P 500 |
| -2.62 | -1.26 | 12.74 | 17.54 | 76.44 | 27.68 | 65.61 | 64.87 | 155.94 | S&P 500 Growth |
| **-0.16** | **2.25** | **19.46** | **24.47** | **62.44** | **3.25** | **31.42** | **20.02** | **82.93** | **S&P 500 Value** |
| -1.93 | 1.65 | 19.24 | 25.19 | 93.56 | 28.52 | 60.87 | 54.23 | 137.65 | S&P 500 Pure Growth |
| **2.11** | **6.96** | **32.39** | **47.14** | **97.66** | **-1.82** | **14.84** | **1.71** | **70.42** | **S&P 500 Pure Value** |
| -0.23 | 0.70 | 15.65 | 30.59 | 44.01 | 2.25 | 18.56 | 11.10 | 85.10 | Berkshire Hathaway B |

*As of 01.15.21. Source Kovitz using data from Bloomberg*

To be sure, we are pleased to see Value having some time in the sun, even as we respect that the newspaper headlines remain troublesome, given a second impeachment proceeding against President Trump and worries about violence around the country in connection with the coming inauguration of President-Elect Biden. Also, we can’t ignore fears about a new COVID-19 variant, not to mention the fact that cases, hospitalizations and deaths remain at record highs,…

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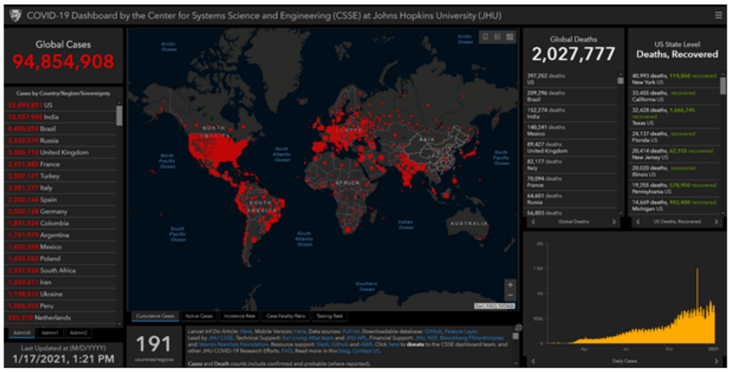
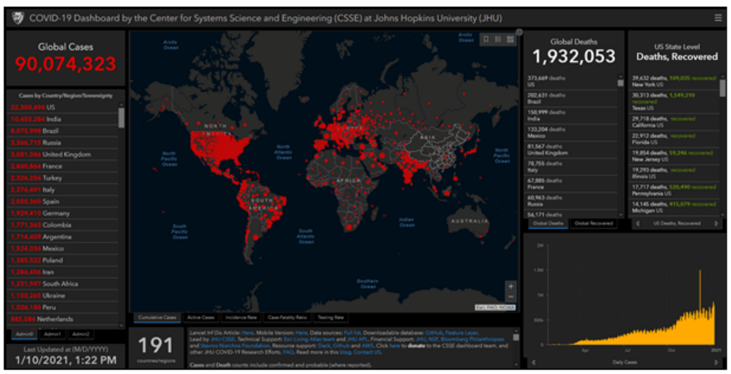
COVID-19 GLOBAL CASES AND DEATHS ACCELERATING




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 nine or ten of the pandemic, not to mention the get-togethers of family and friends over the Holidays, there was a jump of 4.8 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 397,000 fatalities. Deaths obviously lag cases, and the United States, the U.K. and Europe are experiencing spikes in those diagnosed, while the weekly increase in the worldwide fatality count rose last week by nearly 96,000, up from 91,000 the week prior, and the "confirmed case" mortality rate held at 2.14%.

…but history shows that equities have overcome all sorts of disconcerting events just since the end of the Financial Crisis,…

## Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

| Event | Date | S&P End Value | 3 Months Later | 6 Months Later | 12 Months Later | 36 Months Later | 60 Months Later | Event thru Present |
|---|---|---|---|---|---|---|---|---|
| Flash Crash | 5/6/2010 | 1,128.15 | -1% | 9% | 19% | 43% | 84% | 234% |
| Japan Tsunami | 3/11/2011 | 1,304.28 | -3% | -12% | 5% | 43% | 55% | 189% |
| S&P Downgrade | 8/6/2011 | 1,199.38 | 4% | 12% | 16% | 60% | 82% | 214% |
| Hurricane Sandy | 10/22/2012 | 1,433.82 | 4% | 9% | 22% | 43% | 80% | 163% |
| Fiscal Cliff | 1/1/2013 | 1,426.19 | 10% | 13% | 30% | 43% | 87% | 164% |
| Taper Tantrum | 5/22/2013 | 1,655.35 | 0% | 9% | 14% | 24% | 65% | 128% |
| Russia and Ukraine | 2/20/2014 | 1,839.78 | 2% | 8% | 15% | 28% | 51% | 105% |
| Ebola Scare | 9/4/2014 | 1,997.65 | 4% | 5% | -4% | 24% | 47% | 89% |
| Charlie Hebdo | 1/7/2015 | 2,025.90 | 2% | 3% | -4% | 35% | 60% | 86% |
| Greek Default | 6/30/2015 | 2,063.11 | -7% | 0% | 2% | 32% | 50% | 83% |
| China Devalues Yuan | 8/10/2015 | 2,104.18 | -1% | -12% | 3% | 35% | 60% | 79% |
| Paris Bataclan | 12/13/2015 | 2,012.37 | 0% | 3% | 13% | 32% | 82% | 87% |
| U.S. Interest Rate Hike | 12/16/2015 | 2,073.07 | -2% | 0% | 9% | 25% | 79% | 82% |
| China GDP Slowing | 1/19/2016 | 1,881.33 | 12% | 15% | 20% | 42% | | 100% |
| Brexit Vote | 6/23/2016 | 2,113.32 | 2% | 7% | 15% | 40% | | 78% |
| Trump Victory | 11/8/2016 | 2,139.56 | 7% | 12% | 21% | 45% | | 76% |
| **Price Changes Only** | | | | | | | | |
| **Does Not Include Dividends** | | **Averages:** | **2%** | **5%** | **12%** | **37%** | **68%** | **122%** |
| *Source: Kovitz using data from Bloomberg. As of 1.15.21* | | | | | | | | |

…while viruses have been an unfortunate part of the landscape for quite some time.

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VIRUSUS HAVE YET TO KILL THE STOCK MARKET


September 29, 2014


March 30, 2020

| Magazine Cover | Date | S&P End Value | 3 Months Later | 6 Months Later | 12 Months Later | 36 Months Later | 60 Months Later | Event thru Present |
|---|---|---|---|---|---|---|---|---|
| *Time Magazine: The Aids Hysteria* | 7/4/1983 | 168.91 | -2% | -1% | -9% | 49% | 61% | 2131% |
| *Time Magazine: The Truth About SARS* | 5/5/2003 | 926.55 | 4% | 14% | 21% | 43% | 52% | 307% |
| *Time Magazine: Avian Flu Death Threat* | 9/26/2005 | 1,215.63 | 4% | 7% | 10% | 0% | -6% | 210% |
| *Time Magazine: H1N1 How Bad Will It Get?* | 8/24/2009 | 1,025.57 | 8% | 8% | 3% | 38% | 94% | 267% |
| *Bloomberg BusinessWeek: Ebola Is Coming* | 9/29/2014 | 1,977.80 | 6% | 4% | -5% | 27% | 50% | 91% |
| *Time Magazine: Coronavirus* | 3/30/2020 | 2,626.65 | 18% | 28% | | | | 43% |
| | | Price Changes Only. Does not Include Dividends | | | | | | |
| | | **Averages:** | **6%** | **10%** | **4%** | **31%** | **50%** | **508%** |

*Source: Kovitz using data from Bloomberg. As of 1.15.21*


August 24, 2009


September 26, 2005


May 5, 2003


July 4, 1983

Further, even as the latest set of statistics were disappointing in regard to consumer spending,…

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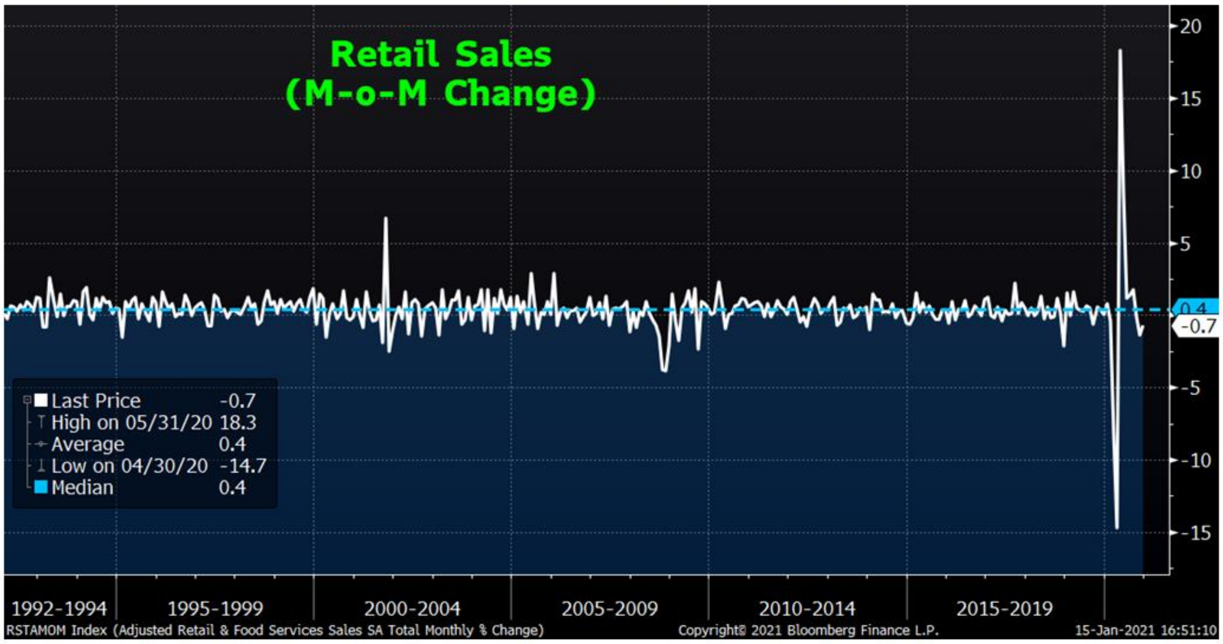
POCKETBOOKS TIGHTER - RETAIL SALES SKID

The impact of government stimulus continuing to wane, retail sales tumbled 0.7% in December, the third monthly decline in a row. Sales fell at internet retailers, bars and restaurants, and electronic stores, while higher prices at the pump (not a good thing) aided gas stations.




…and the jobs situation,…

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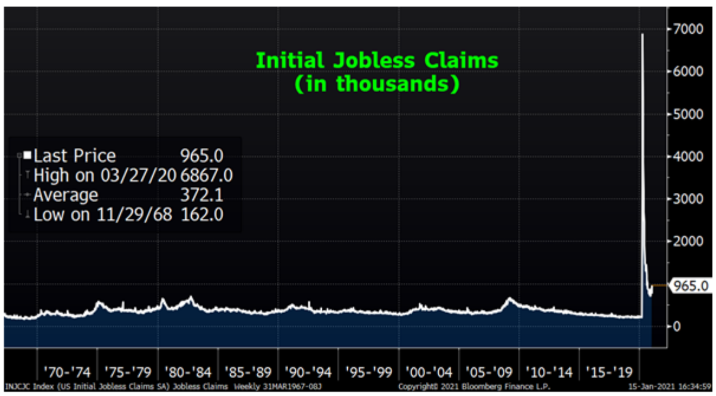
## TOO MANY JOBLESS…BUT A LOT BETTER THAN BEFORE


While there is still some noise in the calculations, the jobless rate for December held steady at 6.7%, maintaining its improvement from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits in the latest week jumped to 965,000, much worse than projected, and continuing jobless claims rose to 5.27 million, with total filings for the last 43 COVID-19-impacted weeks now at more than 74 million.

…the economy has held up well, all things considered,…

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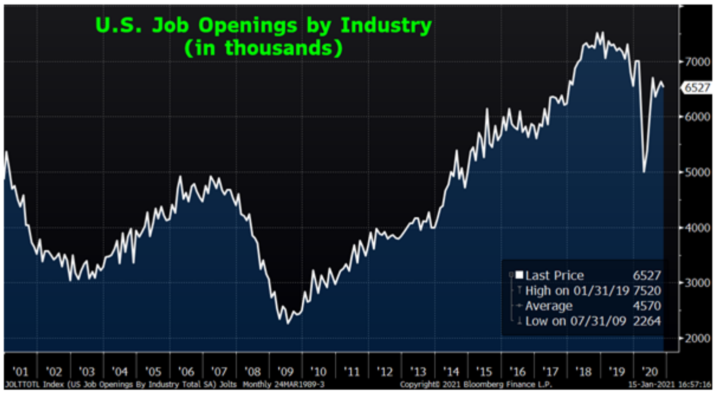
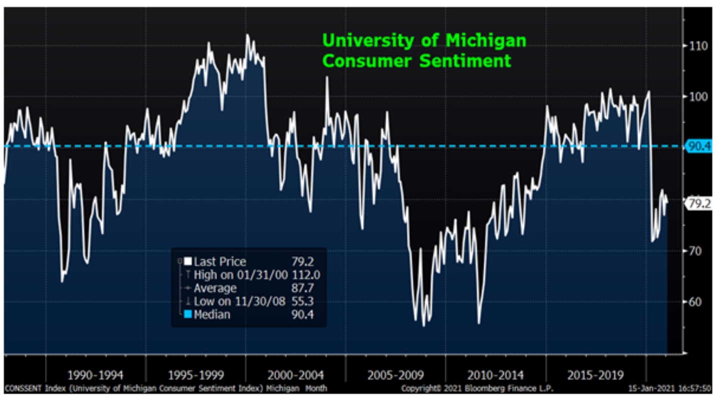
## MIXED ECONOMIC NUMBERS




A sizable 5.8 million people were rehired or found new jobs during November and there were 6.53 million job openings during the month, but the labor picture remains problematic, especially with renewed COVID-19-related business shutdowns. Meanwhile, progress on vaccines helped the preliminary Univ. of Michigan gauge of consumer sentiment hold up this month, as the reading of 79.2 was close to expectations, even as it was down from 80.7 last month.

…with a favorable outlook for growth in the just-completed Q4,

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## HEALTHY U.S. GDP GROWTH EXPECTED IN Q4 2020

While the third quarter saw a massive 33.4% economic expansion, following an epic contraction in Q2, the Atlanta Fed is now projecting a healthy 7.4% increase in GDP in Q4 2020 GDP on an annualized basis.


…and the Federal Reserve back in December projecting a 4.2% increase in real U.S. GDP growth this year,…

## FED: 4.2% GDP REBOUND IN '21

The Fed's latest projections call for a much less severe recession (2.4% decline in real GDP) this year, and a significant recovery of 4.2% GDP growth in 2021 and a decent 3.2% expansion in 2022, while the Fed Funds rate will likely remain near zero through 2023.

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

Percent

| Variable | Median[1] | | | | | Central Tendency[2] | | | | | Range[3] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | Longer run | 2020 | 2021 | 2022 | 2023 | Longer run | 2020 | 2021 | 2022 | 2023 | Longer run |
| Change in real GDP | -2.4 | 4.2 | 3.2 | 2.4 | 1.8 | -2.5–-2.2 | 3.7–5.0 | 3.0–3.5 | 2.2–2.7 | 1.7–2.0 | -3.3–-1.0 | 0.5–5.5 | 2.5–4.0 | 2.0–3.5 | 1.6–2.2 |
| September projection | -3.7 | 4.0 | 3.0 | 2.5 | 1.9 | -4.0–-3.0 | 3.6–4.7 | 2.5–3.3 | 2.4–3.0 | 1.7–2.0 | -5.5–1.0 | 0.0–5.5 | 2.0–4.5 | 2.0–4.0 | 1.6–2.2 |
| Unemployment rate | 6.7 | 5.0 | 4.2 | 3.7 | 4.1 | 6.7–6.8 | 4.7–5.4 | 3.8–4.6 | 3.5–4.3 | 3.9–4.3 | 6.6–6.9 | 4.0–6.8 | 3.5–5.8 | 3.3–5.0 | 3.5–4.5 |
| September projection | 7.6 | 5.5 | 4.6 | 4.0 | 4.1 | 7.0–8.0 | 5.0–6.2 | 4.0–5.0 | 3.5–4.4 | 3.9–4.3 | 6.5–8.0 | 4.0–8.0 | 3.5–7.5 | 3.5–6.0 | 3.5–4.7 |
| PCE inflation | 1.2 | 1.8 | 1.9 | 2.0 | 2.0 | 1.2 | 1.7–1.9 | 1.8–2.0 | 1.9–2.1 | 2.0 | 1.1–1.4 | 1.2–2.3 | 1.5–2.2 | 1.7–2.2 | 2.0 |
| September projection | 1.2 | 1.7 | 1.8 | 2.0 | 2.0 | 1.1–1.3 | 1.6–1.9 | 1.7–1.9 | 1.9–2.0 | 2.0 | 1.0–1.5 | 1.3–2.4 | 1.5–2.2 | 1.7–2.1 | 2.0 |
| Core PCE inflation[4] | 1.4 | 1.8 | 1.9 | 2.0 | | 1.4 | 1.7–1.8 | 1.8–2.0 | 1.9–2.1 | | 1.3–1.5 | 1.5–2.3 | 1.6–2.2 | 1.7–2.2 | |
| September projection | 1.5 | 1.7 | 1.8 | 2.0 | | 1.3–1.5 | 1.6–1.8 | 1.7–1.9 | 1.9–2.0 | | 1.2–1.6 | 1.5–2.4 | 1.6–2.2 | 1.7–2.1 | |
| Memo: Projected appropriate policy path | | | | | | | | | | | | | | | |
| Federal funds rate | 0.1 | 0.1 | 0.1 | 0.1 | 2.5 | 0.1 | 0.1 | 0.1 | 0.1–0.4 | 2.3–2.5 | 0.1 | 0.1 | 0.1–0.4 | 0.1–1.1 | 2.0–3.0 |
| September projection | 0.1 | 0.1 | 0.1 | 0.1 | 2.5 | 0.1 | 0.1 | 0.1 | 0.1–0.4 | 2.3–2.5 | 0.1 | 0.1 | 0.1–0.6 | 0.1–1.4 | 2.0–3.0 |

Source: Federal Reserve, December 16, 2020

…with those estimates made before the results of the Georgia elections tilted Congress in favor of the Democrats,…

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## WASHINGTON AND EQUITY MARKET RETURNS


### Presidential Performance

| Presidential Party | Congress Party | Fama-French Value Stocks | Fama-French Growth Stocks | Large Company Stocks | Small Company Stocks |
|---|---|---|---|---|---|
| Democratic | Democratic | 20.6% | 16.5% | 12.9% | 24.0% |
| Democratic | Republican | 15.6% | 9.9% | 15.0% | 10.4% |
| Democratic | Split | 14.5% | 14.9% | 15.6% | 14.3% |
| Republican | Democratic | 10.7% | 6.7% | 9.5% | 6.4% |
| Republican | Republican | -2.4% | -4.2% | -2.0% | -4.9% |
| Republican | Split | 10.7% | 1.9% | 5.8% | 5.4% |
| **Democratic President** | | **19.0%** | **14.9%** | **13.5%** | **20.3%** |
| **Republican President** | | **6.1%** | **2.0%** | **4.8%** | **2.3%** |

…which led to the Biden Administration’s proposal last week for an additional $1.9 trillion of stimulus that should bolster the economy and support corporate profits in 2021.

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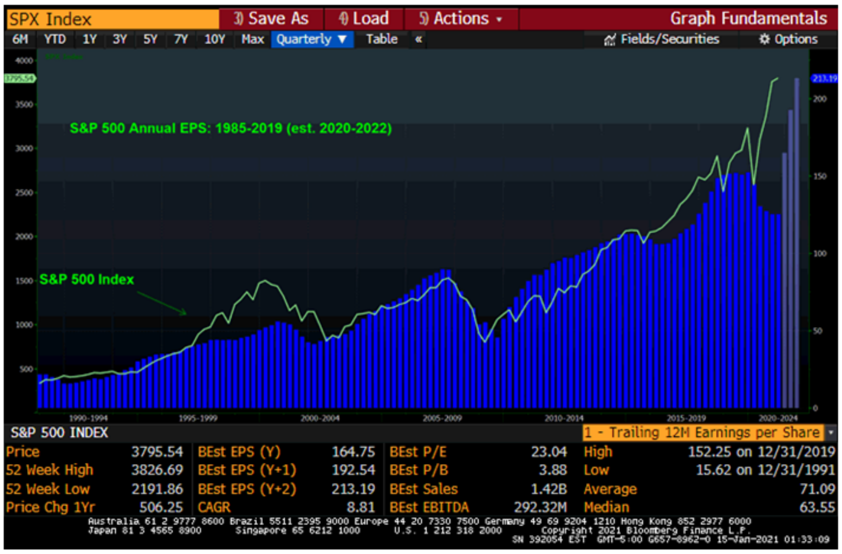
## EPS PLUNGE IN 2020 BUT REBOUND IN 2021

Q2 earnings reporting season was very good, relative to analyst projections that had been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be miserable, but a significant rebound is projected next year.




| S&P 500 Earnings Per Share | | |
|---|---|---|
| Quarter Ended | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
| ESTIMATES | | |
| 12/31/2021 | $44.35 | $164.57 |
| 9/30/2021 | $43.41 | $156.56 |
| 6/30/2021 | $39.74 | $151.05 |
| 3/31/2021 | $37.07 | $138.10 |
| 12/31/2020 | $36.34 | $120.53 |
| | | |
| ACTUAL | | |
| 9/30/2020 | $37.90 | $123.37 |
| 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 1.07.21*

No doubt, stocks, especially those of the Value persuasion have had a strong start to 2021, so we are braced for volatility in the near-term, especially with Q4 earnings-reporting season just getting under way,…

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VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS 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% | 111.7% | 981 | 27 | 3.4 | 3/23/2020 | 1/8/2021 |
| 17.5% | 67.1% | 573 | 39 | 2.3 | 3/23/2020 | 1/8/2021 |
| 15.0% | 66.8% | 558 | 45 | 2.0 | 3/23/2020 | 1/8/2021 |
| 12.5% | 44.4% | 335 | 72 | 1.3 | 3/23/2020 | 1/8/2021 |
| 10.0% | 35.0% | 245 | 98 | 0.9 | 3/23/2020 | 1/8/2021 |
| 7.5% | 23.6% | 148 | 157 | 0.6 | 9/23/2020 | 1/8/2021 |
| 5.0% | 14.7% | 72 | 306 | 0.3 | 10/30/2020 | 1/8/2021 |

### 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 1.8.21. 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 | 13.0% | 26.0% |
| Growth Stocks | 9.7% | 21.5% |
| Dividend Paying Stocks | 10.6% | 18.1% |
| Non-Dividend Paying Stocks | 9.2% | 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 11.30.20. 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

…but we continue to think that our portfolios are very inexpensively priced,…

## CURRENT PORTFOLIO AND INDEX VALUATIONS

| Name | Price to Earnings Ratio | Price to Fwd. Earnings Ratio | Price to Sales Ratio | Price to Book Ratio | Dividend Yield |
|---|---|---|---|---|---|
| TPS Portfolio | 19.6 | 15.3 | 1.1 | 2.3 | 2.3 |
| ValuePlus | 22.4 | 16.6 | 1.5 | 2.3 | 2.0 |
| Dividend Income | 18.7 | 15.1 | 1.0 | 2.3 | 2.7 |
| Focused Dividend Income | 20.2 | 16.0 | 1.2 | 2.6 | 2.5 |
| Focused ValuePlus | 20.9 | 16.5 | 1.6 | 2.5 | 2.1 |
| Small-Mid Dividend Value | 18.3 | 15.0 | 0.7 | 1.6 | 2.2 |
| Russell 3000 | 34.2 | 24.3 | 2.7 | 4.0 | 1.5 |
| Russell 3000 Growth | 46.4 | 32.9 | 4.7 | 11.5 | 0.8 |
| Russell 3000 Value | 26.8 | 19.1 | 1.8 | 2.4 | 2.2 |
| Russell 1000 | 31.7 | 23.7 | 2.8 | 4.1 | 1.5 |
| Russell 1000 Growth | 41.7 | 31.3 | 5.0 | 12.2 | 0.8 |
| Russell 1000 Value | 25.4 | 18.9 | 2.0 | 2.5 | 2.2 |
| S&P 500 Index | 30.0 | 22.9 | 2.8 | 4.2 | 1.6 |
| S&P 500 Growth Index | 37.8 | 29.1 | 5.5 | 10.1 | 0.8 |
| S&P 500 Value Index | 24.5 | 18.5 | 1.8 | 2.5 | 2.4 |
| S&P 500 Pure Value Index | 15.7 | 11.9 | 0.7 | 1.1 | 2.9 |

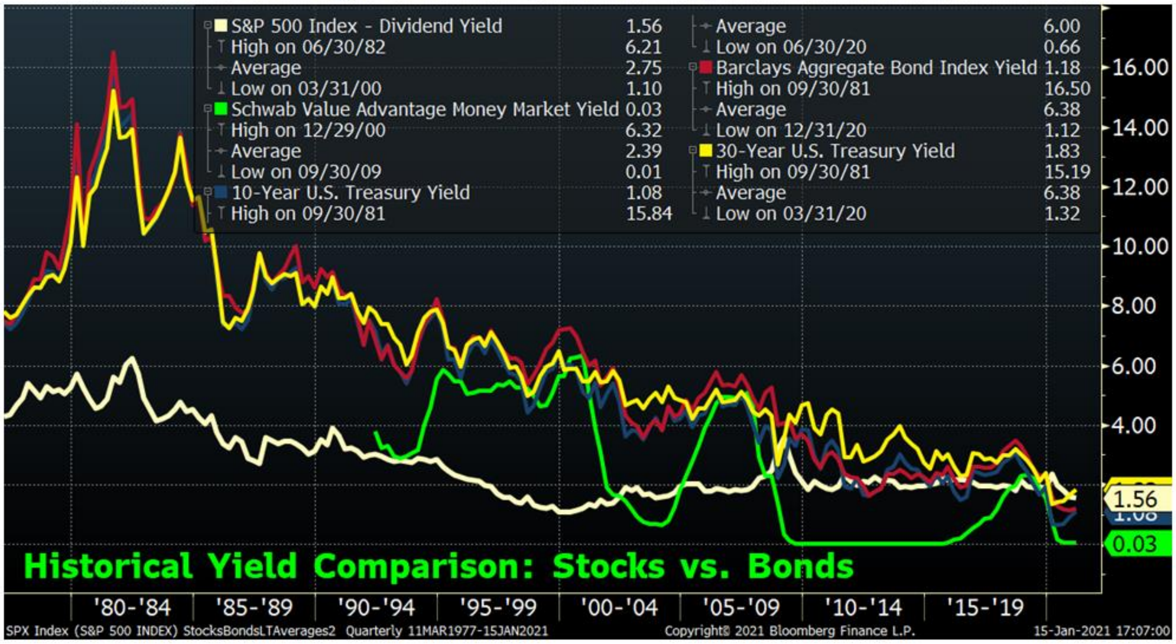
As of 01.16.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…especially considering the still incredibly low interest rate climate,…

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 (1.56%) 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 Value, despite outperforming for more than six months now, is still priced at extraordinarily attractive levels relative to Growth.


**Stock Updates**

Keeping 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, and soon we will be posting our updated Target Price listing to our website.

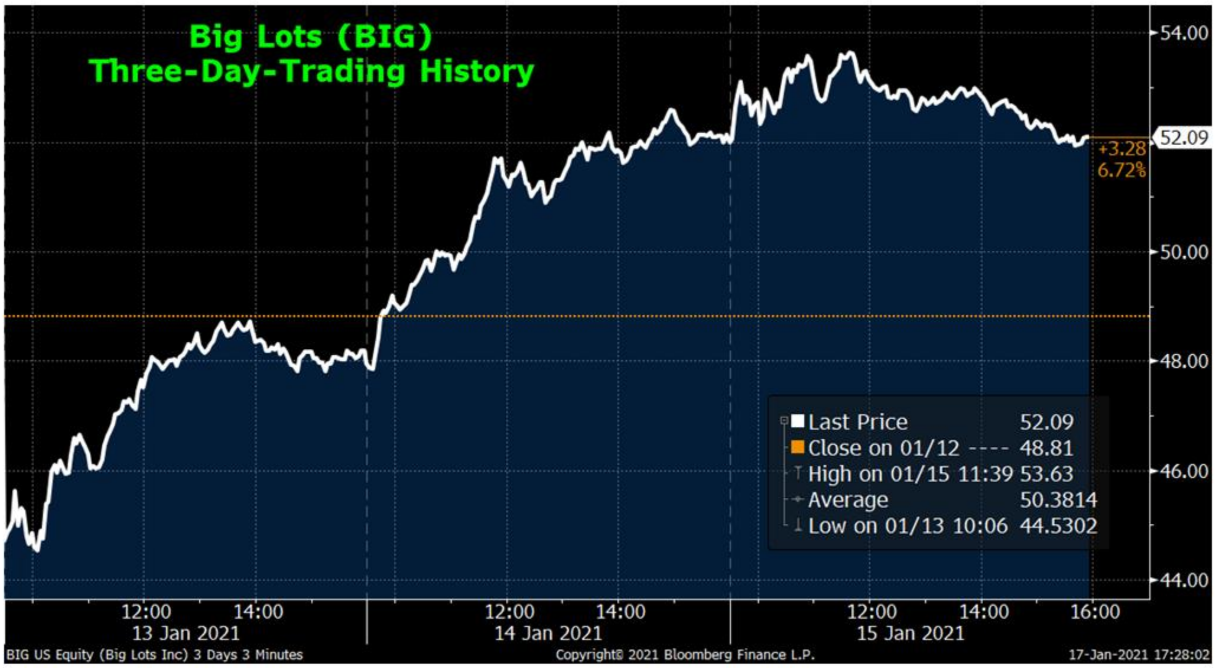
Jason Clark, Chris Quigley and Zack Tart take a look at some of our companies that had news out last week of sufficient interest to merit a Target Price review.

We have raised our Target Prices for semiconductor stocks **Broadcom** (AVGO – $445.85), **Lam Research** (LRCX – $547.53), **Cohu** (COHU – $45.22) and **Kulicke & Soffa** (KLIC – $38.08) to $491, $583, $53 and $42, respectively, as the companies have benefitted from an enormously strong demand environment as a result of the pandemic, which led to few shutdowns and comparatively minor production challenges. In addition, and the latest catalyst for higher valuations, Taiwan Semiconductor (TSMC), which counts **Intel** (INTC – $57.58), Broadcom, Huawei, NVIDIA, AMD, **Qualcomm** (QCOM – $157.09) and numerous others as customers, reported its sixth estimate-beating quarter in a row. The company also reported an "extremely high" utilization rate, while capital expenditures are now expected to be $28 billion in 2021, compared with $17.2 billion in 2020. The capital spending includes a new manufacturing facility in Arizona to serve U.S. customers. TSMC also said that smartphones account for more than half of the company's business, while automotive-related demand continues to climb.

For its part, Intel ousted Chief Executive Bob Swan, ending the former CFO's short two-year stint as CEO. Mr. Swan will be replaced by Intel veteran Pat Gelsinger, who is currently the Chief of VMware, a specialist in infrastructure software. While Mr. Swan was regarded as a good leader for Intel, the company has found itself deeply challenged by constant production issues and setbacks, requiring an innovator for the role. The transition was sudden, but it was not unexpected. Intel has been the recipient of significant pressure to shake up management and explore strategic alternatives, including very public pressure from Dan Loeb, CEO of activist hedge fund Third Point LLC. The competitive pressure remains strong, but we think Intel is likely to get back into the innovation race. Our Target Price for INTC is $66.

Sometimes we are left scratching our heads as the supposedly efficient markets work their magic. Case in point, shares of **Big Lots** (BIG – $52.09) skidded nearly 9% in early trading on Wednesday, after the discount retail chain updated its guidance for fiscal Q4 financial results to be released at the end of next month. Management now expects $2.40 to $2.50 of earnings per share, versus the $2.39 earned in the same quarter a year ago, but well below the $3.06 for which analysts were looking. BIG experienced a slightly weaker Christmas season due to lower inventory levels, although e-commerce grew a spectacular 135% quarter-to-date, while gross margin is expected to be flat given transportation constraints, inventory rebuilding and labor shortages.

BIG – DOWN MORE THAN 8% TO UP MORE THAN 6%




Perhaps because folks realized that BIG still trades at an attractive forward P/E ratio below 8 (30% discount to the 5-year average), while management was upbeat in its longer-term outlook, the stock quickly turned around, rebounding by more than 16% from Wednesday's low-water mark by Friday's close. Not surprisingly, we remain fans of BIG and are pleased that management has reduced the share count by more than 25% over the past five years and that the company has a whopping $344 million remaining on a recently announced repurchase program, after buying back $56 million of stock thus far in the latest fiscal quarter. The dividend yield is 2.3% and our Target Price for BIG has been lifted to $77.

**Delta Air Lines** (DAL – $39.98) reported Q4 2020 results that showed a sequential reduction in cash burn. Delta lost $2.53 per share in Q4, compared with the analyst consensus estimate of $2.49 per share. While the losses are not sustainable over any long period of time, the company lost $4.43 per share two quarters ago and $3.30 per share in Q3.

CEO Ed Bastian commented, "With demand choppiness as COVID infections rose across the country and government and public health officials issue travel advisories, our revenues of $3.5 billion for the fourth quarter was just 30% of last year's levels. And although we still have a tough winter ahead of us, we're encouraged by the progress that's been made on the vaccine front and are confident that Delta is positioned to successfully lead our industry into recovery as the year unfolds. While 2020 was a challenging year, we delivered results for all of our stakeholders. For our employees, we prioritized protecting their health and safety and preserving our culture. For example, throughout the past year, we have offered and continue to offer an extensive employee testing program and pay protection programs for employees diagnosed, exposed or at high risk of COVID-19. We have had remarkable volunteerism, up to 40,000 employees taking unpaid leaves throughout the summer to protect jobs and preserve cash. And in fact, we still have over 10,000 employees in the month of January out on unpaid leaves. And we have made it through this year without furloughing any employees."

Mr. Bastian continued, "We've swiftly removed cost from the business with 3 consecutive quarters of operating expenses declining by nearly 50% or more, increasing the variable nature of our cost structure. In fact, in the December quarter, our all-in unit costs were down 4.5% year-over-year despite flown capacity being down 44%. That is a remarkable achievement and credit to all Delta employees for making that happen. And by keeping our costs under control, we leveraged the modest increase in net sales to reduce our average daily cash burn to $12 million a day for the December quarter, half of what it was in the September quarter and a decrease of 90% since the early days of the pandemic in late March."

Mr. Bastian concluded, "Turning to 2021, we expect the March quarter to look similar to the December quarter, with March quarter revenues at 35% to 40% of March quarter 2019 levels and our cash burn for the quarter holding at $10 million to $15 million per day. We expect that will be followed by an inflection point this spring as vaccine distribution continues, travel restrictions start to ease and consumer confidence begins to grow, hopefully resulting in cash burn reaching breakeven or better by the second quarter. And as the year progresses, we expect demand will start to accelerate as vaccinations become more widespread and the virus is in a contained state and customers gain greater confidence to make future travel commitments. This should enable a sustained recovery to begin in the second half of 2021 with a return to profitability this summer."

We have little doubt that DAL has a hard road ahead as demand for air travel rebounds in fits and starts. Management is carefully watching cash burn levels, while making significant fleet changes and managing debt. Of course, the latter has exploded in the last year due to the pandemic, but one of Mr. Bastian's stated priorities is to pay the debt down quickly. Plus, Delta has a strong relationship with American Express and spending on the co-branded credit cards has not slowed. We think the suffering will drag on; however, distribution of vaccines is underway, and we believe there is hope that normalcy will soon return. Our Target Price for DAL is now $55.

**BlackRock** (BLK – $727.76) saw its shares fall almost 4% last week, even as the investment giant reported what we saw as a very good quarter. BLK earned an adjusted $10.18 per share (vs. $9.19 est.) from revenue of $4.48 billion (vs. $4.31 billion est.) in Q4. The company realized $127 billion of quarterly total net inflows, positive across investment style, product type and region, driven by strength in iShares and active strategies. We think the selling during Thursday and Friday was well overdone, as seemingly investors didn't like the somewhat muted margin guidance offered by management. Given our expectations for healthy organic growth, improving fee rates and active capital management, we see the recent operational momentum extending through 2021. From a strategy standpoint, alternatives, Euro ETFs, fixed income iShares, sustainable products and active equities were some of the standouts in the quarter and in 2020. We think these will continue to gain market share.

BLK CEO Larry Fink commented, “The world faced unprecedented challenges in 2020 – many of which continue today. Through it all, BlackRock remained steadfast in meeting the needs of all our stakeholders. We stayed true to our purpose and used our voice and values to advocate on behalf of the institutions and individuals we help to meet their investment and savings goals, and to be a positive force in the communities where we operate. For decades, we’ve built our platform, strategy and culture around staying in front of clients’ needs, and this approach was proven out during 2020. BlackRock generated $391 billion of total net inflows and we ended the year with strong momentum, evidenced by a record 13% annualized organic base fee growth in the fourth quarter. In addition, our ability to deliver global insights, strategic advice and comprehensive solutions to clients, no matter the market environment, drove positive flows across every asset class, investment style and region.”

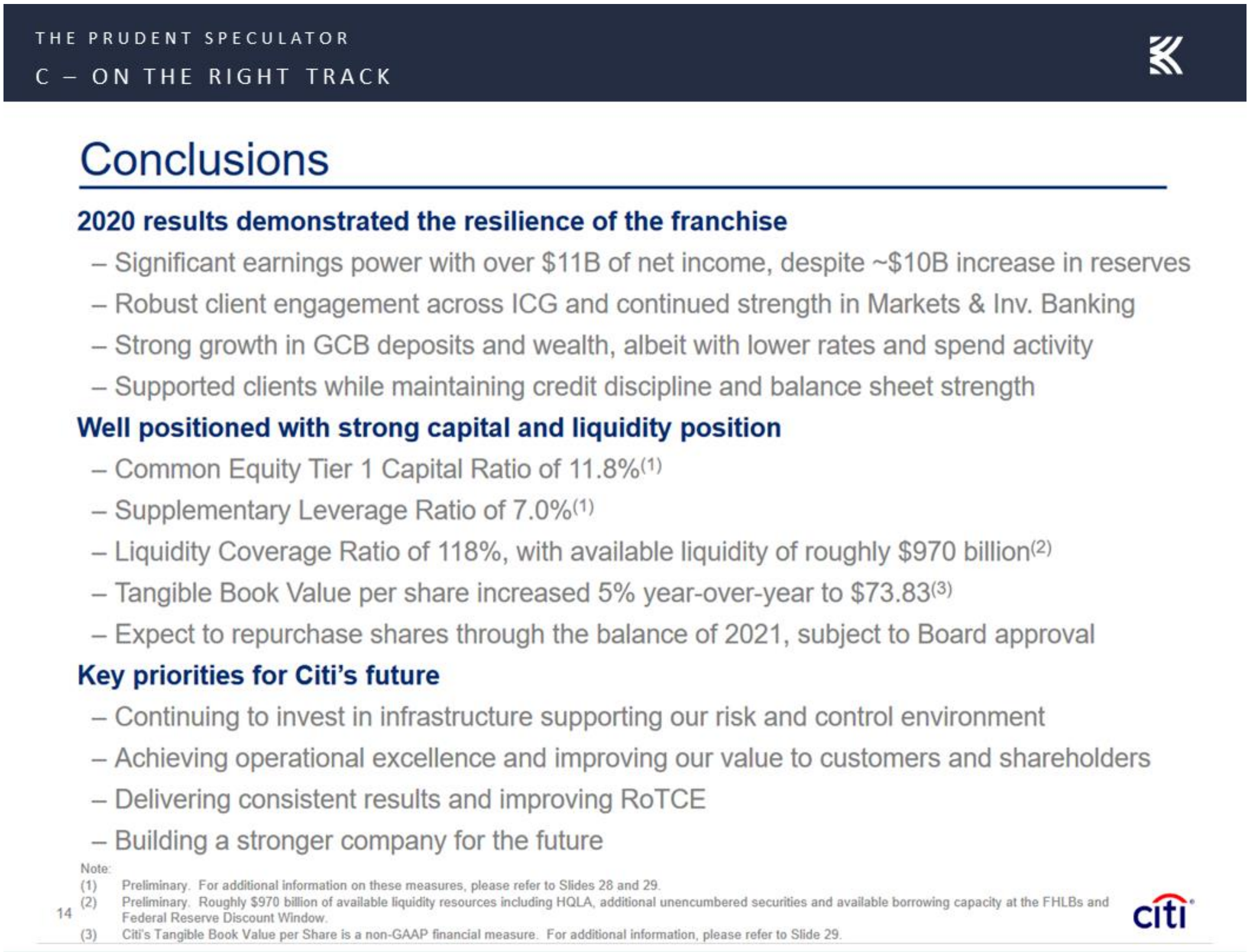
Mr. Fink continued, “Our strategic areas of investment flourished in 2020 as we saw record client demand for active equity, sustainable, cash and alternative investment strategies, generated $185 billion of net inflows into iShares ETFs and surpassed $1 billion in technology services revenue. BlackRock’s continued investment in building a multi-faceted investment platform with integrated technology, data and risk management, scale, global reach and interconnectivity enables us to deliver strong and consistent investment performance and more stable outcomes for our clients…We begin 2021 well-positioned and intend to keep investing in our business to drive long-term growth and to lead the evolution of the asset management industry. In doing so, we remain committed to help millions of people build savings throughout their lives, make investing easier and more affordable, advance sustainable investing, and contribute to a more resilient economy that benefits more people.”

Analysts continue to look for solid earnings growth over the next few years, with EPS expected to rise from $33.85 in 2020 to $36.81 in 2021, $40.81 in 2022 and $44.19 in 2023. The dividend yield is 2.0% and we expect the payout to increase this year. We have raised our Target Price for BLK to $811.

Shares of **Citigroup** (C – $64.23) fell sharply Friday after the global banking concern released Q4 financial results. While the company’s trading revenues, which have been very strong the past few quarters, came in below expectations, we thought the quarter was decent, and we were pleased to see that despite the negative impact of COVID-19 on the global economy, the diversified Citi realized 2020 revenue that was essentially in line with 2019. Adjusted EPS for Q4 came in at $2.08, versus the consensus analyst estimate of $1.33. The quarter was definitely aided by the release of some of the credit loss reserves the bank had taken earlier in the pandemic.

CEO Michael Corbat said, “We ended a tumultuous year with a strong fourth quarter. As a sign of the strength and durability of our diversified franchise, our revenues were flat to 2019, despite the massive economic impact of COVID-19. For the year, we generated $11 billion in net income despite our credit reserves increasing by $10 billion as a result of the pandemic and the impact of CECL. We remain very well capitalized with robust liquidity to serve our clients. Our

CET 1 ratio increased to 11.8%, well above our regulatory minimum of 10%. Our Tangible Book Value per share increased to $73.83, up 5% from a year ago. Given the Federal Reserve decision regarding share repurchases as we have excess capital we can return to shareholders, we plan to resume buybacks during the current quarter."




Mr. Corbat added, "Looking back, I am proud of the progress the firm has made since I became CEO. We have streamlined our consumer business and embraced the shift to digital so we can serve our clients the way they want to be served. We have re-established Citi as a go-to bank for our institutional clients through our global network. Before the pandemic slowed our progress, we had steadily improved our returns and dramatically increased the return of capital to our shareholders. Notably, we went from having a one penny dividend to returning over $85 billion in capital since 2013 and we have reduced our share-count by 30%. Jane has a great foundation to build upon and I am certain great things are in store for Citi and all its stakeholders." Citi will get a new CEO in February, when Jane Fraser succeeds Corbat. Ms. Fraser will become the first female CEO of one of the major U.S.-based financial institutions.

While Citi has to continue to get its house in order following some risk management snafus, and we would expect expenses to rise a bit because of measures that need to be taken, we think C shares remain quite attractive for those with multi-year time horizons. Potential stimulus and infrastructure spending under the incoming administration could be a boon to lenders like Citi this year. A longer-term return to improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business) will be quite beneficial for shareholders. We still like that C has good leverage towards the U.S. economy, while also having the potential to show outsize benefits versus its peers from growth in Asia, Latin America and other emerging economies. Our Target Price for C now stands at $97. The dividend yield for C is 3.2%.

**PNC Financial Services** (PNC – $154.78) reported adjusted Q4 2020 earnings last week that topped analyst estimates by 25%. The regional bank posted $3.26 of earnings per share (vs. $2.61 est.) as loan loss provisions fell significantly compared to the prior two quarters. The purchase of BBVA SA's U.S. division put the proceeds from last year's Blackrock sale to use and increased total assets by nearly 22%. Net interest income was lower than last quarter by 2% due to higher balances at the federal reserve and lower loan balances, but offset by lower deposit costs.

CEO Bill Demchak commented "PNC had a notable year in 2020 amid the many challenges of the pandemic. We achieved solid financial results, grew loans and deposits, delivered positive operating leverage, and maintained our strong capital position. Nonetheless, net income from continuing operations decreased as we built substantial reserves to address the uncertain economic environment that still remains. During the year, we sold our equity stake in BlackRock and are redeploying those proceeds towards the pending acquisition of BBVA USA Bancshares, Inc. Through the hard work and dedication of our employees, we supported the financial needs of our customers and communities, including committing more than $1 billion to advance economic empowerment and social justice. As the new year begins, we are optimistic about PNC's future. With the continued execution of our strategic priorities and the planned addition of BBVA USA we believe we are well positioned to deliver for all our stakeholders in 2021 and beyond."

Despite the persistently low interest rate environment, the surge in deposits should keep funding costs low for some time. While management has said the company will refrain from share repurchases until later in the year, we note that PNC's capital base remains very strong with a CET1 ratio of over 12%. Even with a sizable 40% rally since the end of Q3, the dividend yield is still a generous 3.0%. Our Target Price for PNC has been raised to $170.

Financial services behemoth **JP Morgan Chase** (JPM – $101.51) released Q4 financial results last that walloped analyst expectations ($3.79 in EPS vs. $2.62 est.). Despite the beat, shares dipped as much as 3% the morning of the release. We weren't all that surprised to see the stock take a breather after the near-40% rally over the past 2 months. No doubt, the big gains of late have been boosted by a sharp increase in the 10-year U.S. Treasury yield, and the ensuing 95 bps spread over that of the 2-year. Quarterly revenue of $29.2 billion, a 3% increase year-over-year, was supported by another solid performance in investment banking which produced over $11 billion on its own. And, while the recent changes in rates are quite significant in percentage terms, we note that funding costs remain dirt cheap as average deposits continue to grow (30% for all of 2020).

CEO Jamie Dimon commented on the results, "JPMorgan Chase reported strong results in the fourth quarter of 2020, concluding a challenging year where we generated record revenue, benefiting from our diversified business model and dedicated employees. While we reported record profits of $12.1 billion, we do not consider the reserve takedown of $2.9 billion to represent core or recurring profits – essentially reserve calculations, while done extremely diligently and carefully, now involve multiple, multi-year hypothetical probability-adjusted scenarios, which may or may not occur and which can be expected to introduce quarterly volatility in our reserves. While positive vaccine and stimulus developments contributed to these reserve releases this quarter, our credit reserves of over $30 billion continue to reflect significant near-term economic uncertainty and will allow us to withstand an economic environment far worse than the current base forecasts by most economists."

JP Morgan continues to prove itself as a premier financial institution whose multiple levers certainly served it well throughout a very difficult year. Despite operational and macroeconomic headwinds, the bank's 24% return on tangible capital in the quarter points to its tremendous operating potential, especially considering that interest rates remain historically low. Management stated last month that the Board has authorized share repurchases, with a plan to resume buybacks in the first quarter up to a Fed-authorized capacity of $4.5 billion after paying the $0.90 per share dividend. JPM yields 3.6% and our Target Price has been hiked to $160.