Market Commentary Monday, January 25, 2021

January 25, 2021

EXECUTIVE SUMMARY

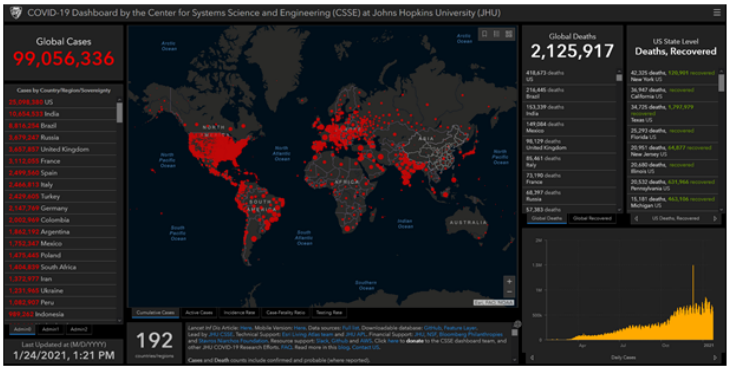
Week In Review – Health News Not so Great; Growth Tops Value
Market of Stocks – Two Dozen Russell 3000 Growth Index *TPS* Recommendations
Sentiment – Little in the Way of Exuberance
Earnings – Stellar Q4 Reports Thus Far
Econ Update – Solid Stats
Interest Rates – Still Very Supportive of Equities
Stock News – Updates on GOOG, GM, INTC, IBM, STX, EOG, GS, BAC, MS, BK, KEY & CMA

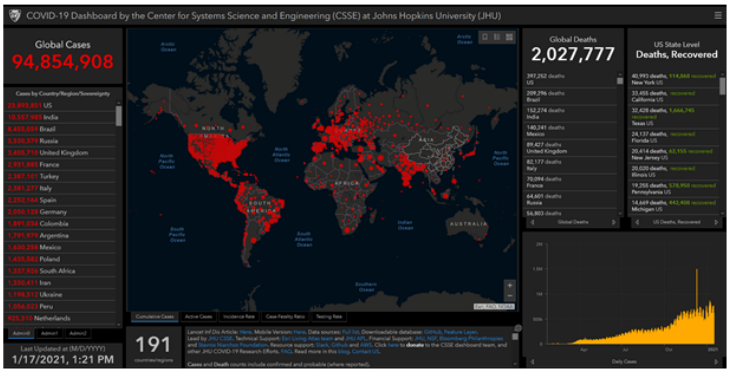
Market Review

With news on the health front remaining disconcerting, given record COVID-19 deaths and the U.S. fatality count crossing 400,000, not to mention difficulties in vaccine distribution and the discovery of new potentially more deadly coronavirus strains around the world,…

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASES AND DEATHS ACCELERATING





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

With access to testing higher, the weather having turned colder and folks not as careful in month nine or ten of the pandemic, not to mention the get-togethers of family and friends over the Holidays, there was a jump of 4.2 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 418,000 fatalities. Deaths obviously lag cases, and the United States, the U.K. and Europe still have high numbers of those diagnosed, while the weekly increase in the worldwide fatality count rose last week by nearly 98,000, up from 96,000 the week prior, and the "confirmed case" mortality rate bumped up to 2.15%.

…we were not overly surprised to see the Value indexes take a breather in the latest Holiday-shortened trading week.

THE PRUDENT SPECULATOR

VALUE RESURGENCE TAKES A BREAK

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
0.11	-0.71	2.45	4.49	11.65	8.25	15.48	13.86	24.82	Bloomberg Barclays Global-Aggregate Bond
0.01	-0.75	0.36	-0.13	5.61	5.75	15.71	17.24	22.26	Bloomberg Barclays US Aggregate Bond
0.63	1.37	17.55	21.89	69.69	8.67	33.12	26.77	117.17	Dow Jones Industrial Average
0.40	3.05	20.88	26.82	73.89	8.69	31.37	20.25	81.29	New York Stock Exchange Composite
3.84	3.21	19.80	25.04	92.23	36.21	83.71	77.56	183.02	Russell 3000 Growth
-0.07	**3.05**	**22.06**	**29.32**	**70.61**	**5.11**	**26.75**	**16.82**	**77.75**	**Russell 3000 Value**
1.92	3.13	20.88	27.08	82.37	21.20	54.75	46.28	127.77	Russell 3000
0.20	3.01	22.77	32.12	85.64	14.23	40.89	31.91	104.63	S&P 500 Equal Weighted
1.96	2.36	17.93	22.92	74.19	17.77	51.58	43.68	122.54	S&P 500
4.18	2.87	17.46	22.46	83.82	31.15	71.81	68.26	161.26	S&P 500 Growth
-0.47	**1.77**	**18.90**	**23.88**	**61.68**	**2.24**	**29.00**	**17.95**	**80.67**	**S&P 500 Value**
2.71	4.40	22.47	28.58	98.80	30.00	63.95	54.54	139.17	S&P 500 Pure Growth
-0.58	**6.34**	**31.62**	**46.28**	**96.51**	**-1.74**	**12.31**	**0.14**	**68.29**	**S&P 500 Pure Value**

As of 01.22.21. Source Kovitz using data from Bloomberg

Of course, our portfolios still turned in a solid week in the green, as we are not limited in our stock picking and stock holding by arbitrary Value vs. Growth distinctions. In fact, two-dozen of our newsletter portfolio holdings are current residents of the Russell 3000 Growth index, though we still think they are undervalued today and they were inexpensive by our way of thinking at the time of their initial purchase.

We are equal opportunity stock pickers as we do not discriminate in our selection of what we believe to be companies that have significant capital appreciation and income potential, though even stocks that may fall into the Growth bucket must be inexpensive by our analytics in order to qualify for consideration.

TPS Russell 3000 Growth Index Members

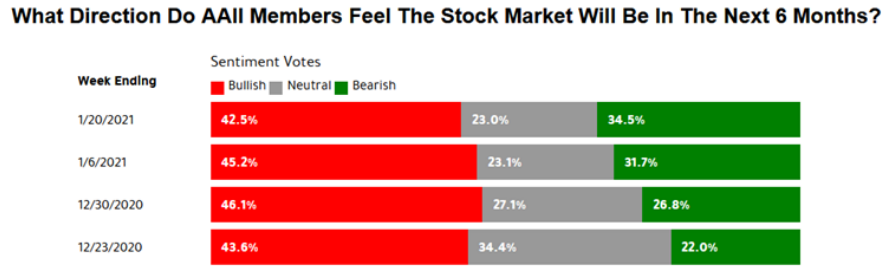
Symbol	Common Stock	1.22.21 Price	Target Price	52-Week High	% Below High	52-Week Low	% Above Low	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AAPL	Apple	$139.07	$146.94	$139.85	-1%	$53.15	162%	Technology Hardware	42.6	8.5	35.8	73.7	28.8	3.0	164%	0.6%	2,339,611
ABT	Abbott Laboratories	$112.84	$120.04	$115.14	-2%	$61.61	83%	Health Care Equip/Srvcs	35.8	6.2	nmf	10.7	28.1	2.3	nmf	1.6%	199,993
AMGN	Amgen	$253.50	$290.35	$264.97	-4%	$177.05	43%	Pharma, Biotech	15.4	5.9	nmf	67.2	13.4	6.9	nmf	2.8%	147,580
AVGO	Broadcom	$465.02	$491.09	$469.47	-1%	$155.67	199%	Semiconductors	21.0	7.9	nmf	12.9	20.6	6.2	nmf	3.1%	189,130
AXS	Axis Capital Holdings Ltd	$48.84	$67.69	$66.16	-26%	$31.82	53%	Insurance	nmf	nmf	0.9	-3.3	nmf	nmf	nmf	3.4%	4,118
BIIB	Biogen	$269.44	$335.80	$374.99	-28%	$223.25	21%	Pharma, Biotech	7.4	2.9	24.7	41.1	6.2	13.5	467%	0.0%	41,462
BMY	Bristol-Myers Squibb	$64.56	$95.97	$67.80	-5%	$45.76	41%	Pharma, Biotech	10.4	3.7	nmf	-0.1	13.5	8.2	nmf	3.0%	145,890
CAH	Cardinal Health	$55.39	$79.92	$60.69	-9%	$39.05	42%	Health Care Equip/Srvcs	9.7	0.1	nmf	83.8	12.5	15.5	nmf	3.5%	16,253
COHU	Cohu Inc	$48.36	$52.68	$49.37	-2%	$8.89	444%	Semiconductors	nmf	3.5	nmf	-9.5	37.8	1.9	nmf	0.0%	2,029
GOOG	Alphabet "C"	$1,901.05	$2,024.62	$1,934.86	-2%	$1,013.54	88%	Media & Entertainment	35.1	7.5	6.7	17.5	23.4	2.6	13%	0.0%	1,283,173
JBL	Jabil Inc	$45.22	$56.32	$46.18	-2%	$17.63	156%	Technology Hardware	13.1	0.2	6.3	11.2	5.9	2.9	280%	0.7%	6,791
JNJ	Johnson & Johnson	$163.55	$175.74	$165.16	-1%	$109.16	50%	Pharma, Biotech	20.3	5.3	nmf	27.7	16.1	4.2	nmf	2.5%	430,552
LMT	Lockheed Martin	$339.88	$498.03	$442.53	-23%	$266.11	28%	Capital Goods	14.5	1.5	nmf	147.8	10.6	6.5	nmf	3.1%	95,093
LOW	Lowe's Cos	$172.40	$189.37	$180.67	-5%	$60.00	187%	Retailing	20.4	1.5	33.5	163.7	13.2	7.7	666%	1.4%	126,321
LRCX	Lam Research	$563.85	$582.98	$585.42	-4%	$181.38	211%	Semiconductors	30.6	7.3	21.5	50.4	23.6	2.5	132%	0.9%	81,200
MCK	McKesson	$185.01	$206.37	$187.67	-1%	$112.60	64%	Health Care Equip/Srvcs	11.8	0.1	nmf	36.0	10.3	12.7	nmf	0.9%	29,706
MMM	3M	$169.04	$202.75	$180.59	-6%	$114.04	48%	Capital Goods	20.3	3.1	nmf	44.0	13.2	6.5	nmf	3.5%	97,506
MRK	Merck & Co	$80.98	$106.14	$89.20	-9%	$65.25	24%	Pharma, Biotech	14.0	4.3	nmf	41.1	13.7	3.3	nmf	3.2%	204,882
MSFT	Microsoft	$225.95	$242.85	$232.86	-3%	$132.52	71%	Software & Services	36.5	11.6	23.5	41.4	23.4	2.9	102%	1.0%	1,708,294
NLOK	NortonLifeLock	$20.67	$27.17	$24.40	-15%	$15.12	37%	Software & Services	17.5	4.9	nmf	nmf	22.3	-10.8	nmf	2.4%	12,234
NTAP	NetApp	$64.76	$80.01	$67.63	-4%	$34.66	87%	Technology Hardware	15.7	2.6	nmf	151.7	12.2	7.3	nmf	3.0%	14,466
ORCL	Oracle	$60.36	$72.78	$66.20	-9%	$39.71	52%	Software & Services	14.5	4.5	nmf	88.4	11.8	6.5	nmf	1.6%	177,702
QCOM	Qualcomm	$162.42	$167.97	$167.94	-3%	$58.00	180%	Semiconductors	38.9	7.8	nmf	94.6	24.4	2.4	nmf	1.6%	184,469
WM	Waste Management	$115.36	$139.69	$126.79	-9%	$85.34	35%	Commercial/Pro Srvcs	28.2	3.3	nmf	21.6	14.2	4.4	5102%	1.9%	48,752

As of 1.22.21. 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

Certainly, we realize that equity prices have been heading in a northerly direction for a while now, but outside of the incredibly frothy investor appetite for initial public offerings, special purpose acquisition vehicles and profit-/sales-challenged tech stocks, we do not see a lot of euphoria in what folks are saying,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULL-BEAR SPREAD NEAR THE MEDIAN



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.75											
BELOW	-54.0	7.7	870	0.27%	0.23%	1.27%	1.14%	3.66%	3.27%	6.82%	6.06%
ABOVE	7.8	62.9	875	0.16%	0.14%	0.48%	0.39%	1.82%	1.57%	4.52%	4.04%
Ten Groupings of 1745 Data Points											
1	-54.0	-15.1	175	0.57%	0.50%	2.20%	1.95%	5.88%	5.31%	10.02%	8.77%
2	-15.0	-7.5	174	0.33%	0.30%	0.97%	0.85%	3.96%	3.60%	6.76%	6.00%
3	-7.5	-1.6	175	0.32%	0.29%	1.54%	1.45%	3.35%	2.96%	6.97%	6.33%
4	-1.4	3.0	184	0.08%	0.04%	1.06%	0.97%	2.82%	2.46%	6.08%	5.58%
5	3.0	7.8	164	0.04%	0.02%	0.57%	0.46%	2.31%	2.06%	4.09%	3.54%
6	7.8	12.0	178	0.09%	0.07%	0.51%	0.39%	1.73%	1.49%	5.43%	5.05%
7	12.0	16.3	171	0.17%	0.15%	0.54%	0.44%	2.24%	1.99%	4.94%	4.40%
8	16.4	22.0	184	0.20%	0.18%	0.75%	0.67%	1.90%	1.63%	5.42%	5.00%
9	22.0	29.1	165	0.10%	0.08%	0.29%	0.21%	1.87%	1.58%	4.16%	3.57%
10	29.2	62.9	175	0.24%	0.22%	0.26%	0.19%	1.32%	1.10%	2.57%	2.13%

From 07.31.87 through 1.21.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Folks on Main Street became more pessimistic last week, as the latest AAII Sentiment Survey saw the number of Bears rise to 34.5%, 3.5 points above normal, while the tally of Bulls came in at 42.5%, 4.0 points above-average. The Bull-Bear Spread of 8.0 was slightly above the historical median.

…or what they are doing with their investment dollars.

THE PRUDENT SPECULATOR

BONDS REMAIN STUNNINGLY POPULAR

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	1/13/2021	1/6/2021	12/29/2020	12/22/2020	12/16/2020
Total Equity	-10,289	-13,850	-2,037	-3,215	9,491
Domestic	-11,024	-11,492	-4,075	-7,549	6,628
World	735	-2,358	2,038	4,334	2,864
Hybrid	-693	-1,653	937	-1,271	-1,574
Total Bond	23,090	23,811	18,379	12,916	8,116
Taxable	19,053	20,631	14,897	10,840	5,599
Municipal	4,037	3,179	3,482	2,076	2,517
Commodities	-615	1,326	349	111	-503
Total	11,494	9,634	17,628	8,541	15,531

Source: Investment Company Institute

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	-29,908	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	-24,645	43,187
May-15	-17,287	5,010	Nov-16	22,993	-13,289	May-18	10,068	11,749	Nov-19	-11,716	44,480
Jun-15	-7,023	6,324	Dec-16	18,859	-4,142	Jun-18	-21,004	16,995	Dec-19	-27,500	50,733
Jul-15	-14,864	-1,255	Jan-17	5,097	31,037	Jul-18	1,007	22,495	Jan-20	-24,544	73,855
Aug-15	-18,569	-18,122	Feb-17	17,613	33,991	Aug-18	-6,660	17,219	Feb-20	-28,220	25,064
Sep-15	-4,725	-10,849	Mar-17	9,411	36,562	Sep-18	886	18,526	Mar-20	-7,485	-273,714
Oct-15	-807	15,397	Apr-17	-8,266	22,064	Oct-18	-9,657	-27,700	Apr-20	2,664	14,672
Nov-15	654	-5,573	May-17	-10,725	33,070	Nov-18	2,783	-7,459	May-20	-20,929	73,166
Dec-15	476	-25,043	Jun-17	-7,944	29,372	Dec-18	-28,953	-49,512	Jun-20	-24,822	100,075
Jan-16	-27,222	7,686	Jul-17	-12,518	29,139	Jan-19	-21,195	29,308	Jul-20	-46,524	98,490
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	50,996
Apr-16	-12,610	22,114	Oct-17	3,166	36,110	Apr-19	-5,307	40,565	Oct-20	-52,484	63,895
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332	Nov-20	41,042	58,856
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	Dec-20	-10,712	75,882
									Totals:	-764,805	1,562,408

While most of the major equity market averages reside near all-time highs and many individual stocks have hit record prices, investors remain infatuated with fixed income. Indeed, data from ICI show that Bonds, aside from a big hiccup last March, continue to garner nearly all the love, despite microscopic yields, the increase of which has produced modest red ink for many fixed income holders thus far in 2021.

Yes, we will not be surprised if the markets soon suffer a pullback, given that 5% declines happen three times a year on average,…

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%	111.8%	982	27	3.4	3/23/2020	1/21/2021
17.5%	67.1%	574	39	2.3	3/23/2020	1/21/2021
15.0%	66.8%	558	45	2.0	3/23/2020	1/21/2021
12.5%	44.5%	335	72	1.3	3/23/2020	1/21/2021
10.0%	35.0%	245	98	0.9	3/23/2020	1/21/2021
7.5%	23.9%	148	157	0.6	9/23/2020	1/21/2021
5.0%	14.7%	72	306	0.3	10/30/2020	1/21/2021

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 1.21.21. 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%

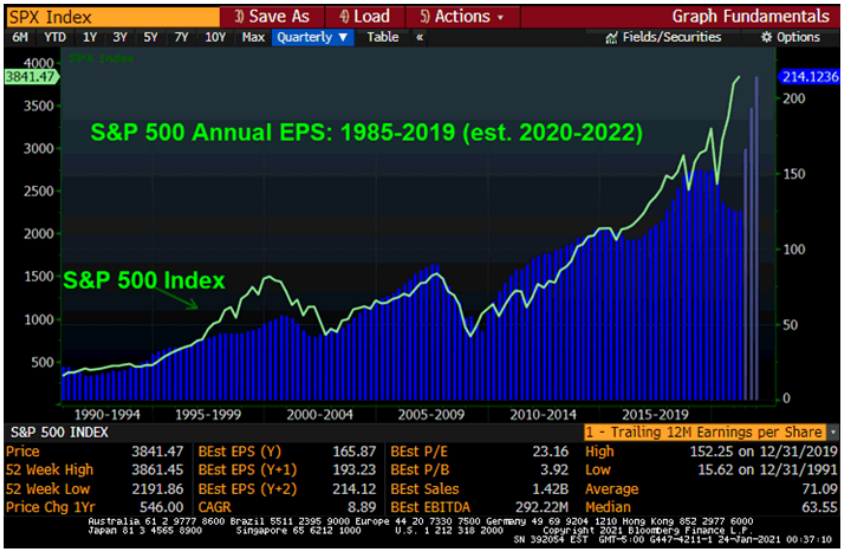
From 06.30.27 through 11.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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 Q4 earnings reporting season has seen Corporate America turn in spectacular results thus far, at lease relative to overly pessimistic analyst forecasts. Indeed, data provided Bloomberg calculates that of the 68 S&P 500 members to have announced thus far, 86.4% have exceeded EPS estimates while 74.6% have topped sales projections, much better than the usual “success” rate.

THE PRUDENT SPECULATOR

EPS PLUNGE IN 2020 BUT REBOUND IN 2021

Q4 earnings reporting season so far has been very good, relative to analyst projections that had been too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS will be miserable, but a significant rebound is projected next year.



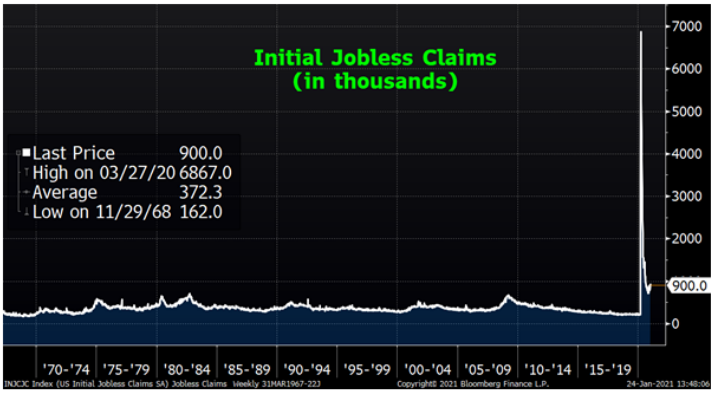
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.61	$165.55
9/30/2021	$43.80	$157.54
6/30/2021	$40.00	$151.64
3/31/2021	$37.14	$138.43
12/31/2020	$36.60	$120.79
ACTUAL		
9/30/2020	$37.90	$123.37
6/30/2020	$26.79	$125.28
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

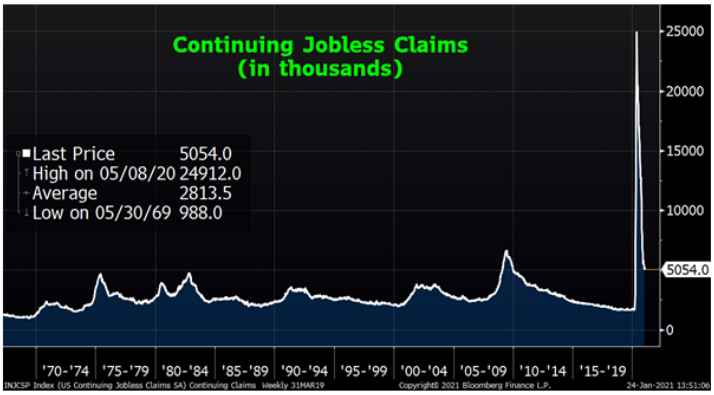
Source: Standard & Poor's. As of 1.15.21

No doubt, there are plenty of question marks about the prospects for the economy in 2021, especially with so many Americans out of work,…

THE PRUDENT SPECULATOR

FEWER FIRST-TIME FILINGS AND CONTINUING CLAIMS





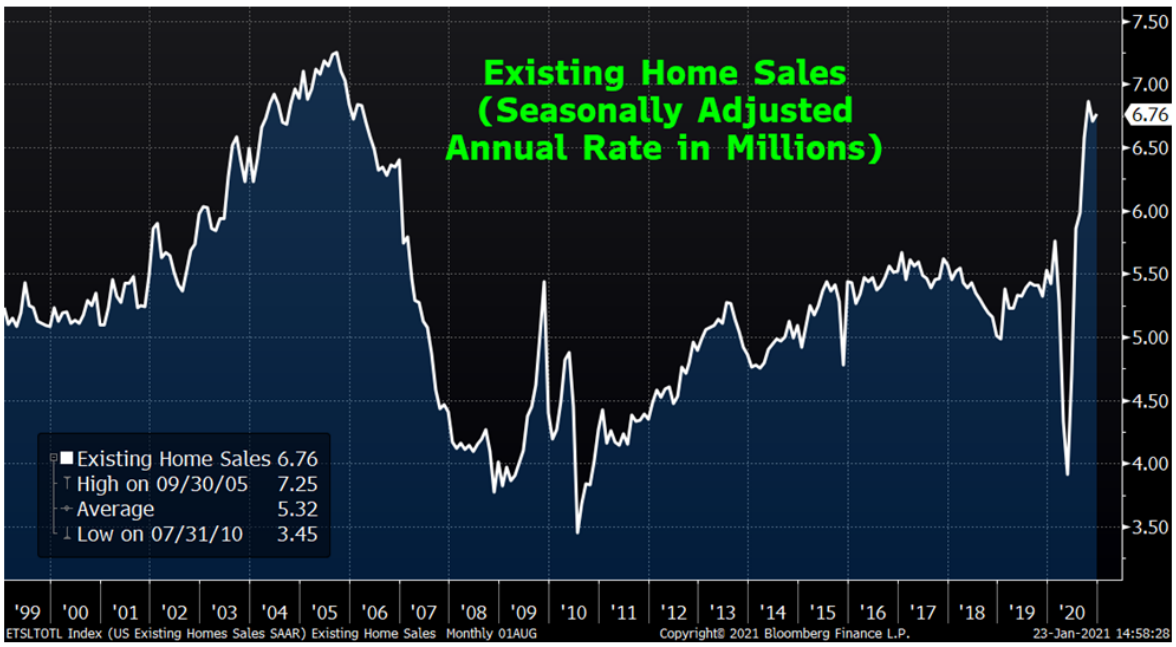
The jobs market improved modestly in the latest week, with new applications for unemployment benefits declining to a seasonally adjusted and better-than-expected 900,000 for the period ended Jan. 16, down 26,000 from the week prior. Also, continuing jobless claims filed through state programs dropped by 127,000 to a seasonally adjusted 5.04 million, a new pandemic low. Of course, a massive 75.6 million unemployment claims have been filed since March 20.

…but the housing market has been booming,..

THE PRUDENT SPECULATOR

AMERICANS ON THE MOVE – 14-YEAR HIGH IN EXISTING HOME SALES

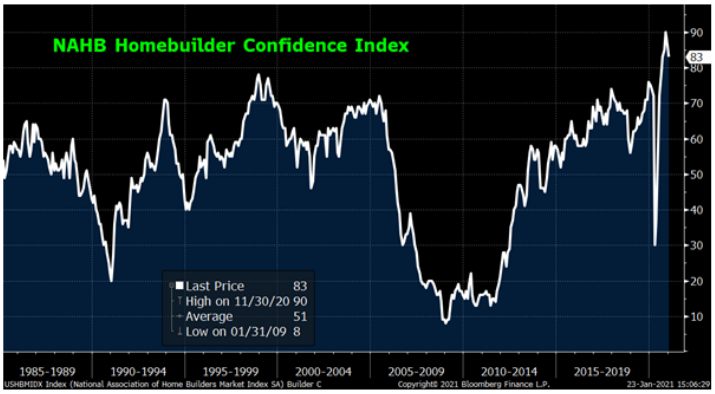
No doubt, record low mortgage rates are aiding the housing market, and sales of existing homes in November rose 0.7% from October to a stronger-than-forecast seasonally adjusted annual rate of 6.76 million units, the highest level in 14 years and up 22% year-over-year.

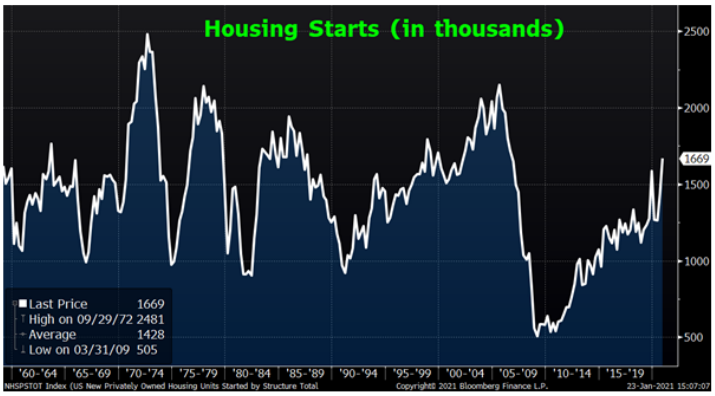


…with new home construction now at levels not seen since 2006,…

THE PRUDENT SPECULATOR

STRONG HOUSING STATS



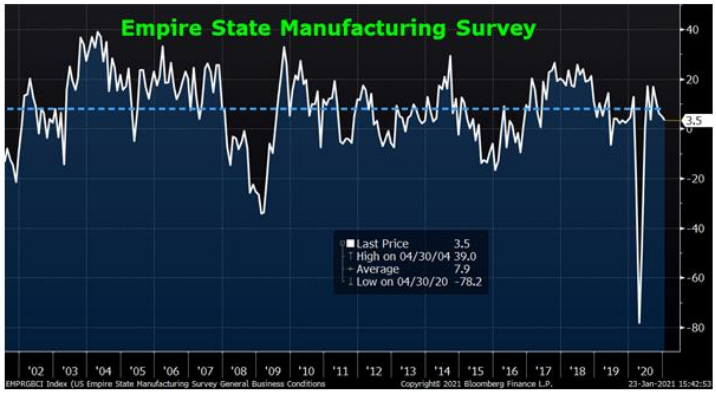


The National Association of Home Builders' monthly confidence index for January dipped to a still sky-high level of 83, pulling back from November's record tally of 90 on the 35-year-old gauge. No doubt, record low mortgage rates are supporting the housing market, and builders started construction of new homes in December at a seasonally adjusted annual pace of 1.67 million, up 4.7% over November and the highest since 2006.

…and relatively strong numbers on the health of the factory sector,

THE PRUDENT SPECULATOR

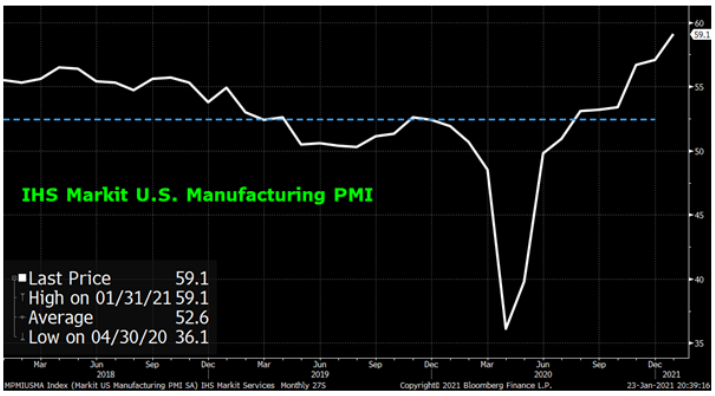
EAST COAST FACTORY OUTLOOK MIXED IN JANUARY

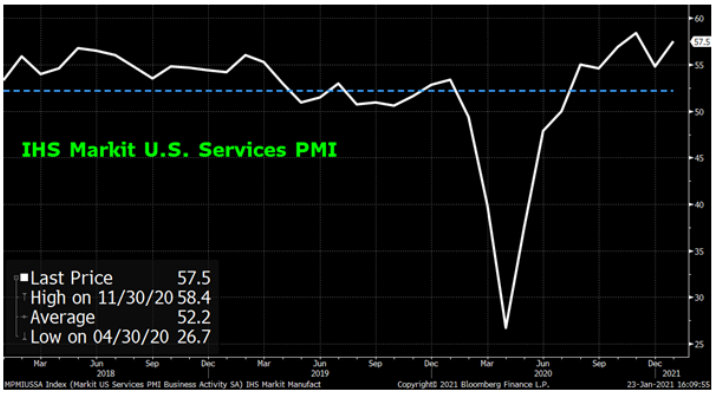


The Empire State gauge of manufacturing activity in the New York area dropped in January, declining from 4.9 in December to a reading of 3.5, below average for this business conditions index. On the other hand, the Philadelphia Fed's January measure of manufacturing activity in the mid-Atlantic region jumped 17 points to a much-better-than-expected 26.1, a post-pandemic high. Both numbers indicate improving factory conditions.

…not to mention a robust outlook for the manufacturing and services sectors.

BIG GAINS IN JANUARY HIS MARKIT PMI RELEASES





Indicating that the economy has gained momentum as the calendar rolled over to 2021, IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors jumped in January to 59.1 and 57.5, respectively, the former a record high. IHS stated, "Not only have the last two months seen supply shortages develop at a pace not previously seen in the survey's history, but prices have also risen due to the imbalance of supply and demand."

The Federal Reserve last month projected 4.2% U.S. GDP growth for 2021, but many economists are thinking the economy will be even stronger this year. Echoing their optimism, **Truist Financial** (TFC – $51.18) CEO Kelly King said last week, "If you take the '90 correction, it was about our commercial real estate model. 2000 was a technology bubble 2008 was the residential real estate bubble. There was no bubble here. There was nothing fundamentally wrong with the economy. Given where we are with the vaccines, et cetera, we fully expect that you're most likely to see the economy recover stronger than expected…We're seeing that in terms of our robust pipeline of loan activity. And so we are upbeat with regard to the economy."

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

So, with the Fed also suggesting that the Fed Funds rate will remain near zero through at least the end of 2023, we can't help but maintain our enthusiasm for the long-term prospects of equities in general and our broadly diversified portfolios of what we believe to be undervalued stocks in particular.

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.25% vs. 1.09% 10-Year) and generous S&P 500 dividend yield of 1.53%.

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*.

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 again hiked our Target Price for **Alphabet** (GOOG – $1901.05) because we think that earnings power remains strong despite possible government challenges related to the company's Google search engine and stretched valuation. On the former, we think it's likely that Alphabet will face continued pressure from regulators related to Google's position as the primary search engine for many phone makers, Google's giant market share for internet searches (90% or more) and the company's practices in Open Bidding, a group of more than 25 ad networks and exchanges.

Playing in Alphabet's favor, Congress has been slow to determine the amount of regulation that Information Technology companies require to prevent abuses of monopoly power. On the valuation front, GOOG shares trade for 28x forward earnings, while that number drops to 23x if the company achieves the $82 of earnings analysts expect for 2022. The regulatory risk is not new and given the major items on the congressional plate this year, we think it's unlikely that Alphabet will attract the attention a "bored" body might. We remain comfortable with our present GOOG position, especially given the strength of the balance sheet, and our Target Price now stands at $2025.

Microsoft (MSFT – $225.95) has invested $2 billion in **General Motors'** (GM – $55.40) Cruise autonomous driving subsidiary, giving the unit a valuation of approximately $30 billion. With a hefty 33% rally thus far in 2021, GM's overall market capitalization is now just shy of $80 billion, making the Cruise unit, which was acquired for around $1 billion in 2016, a substantial chunk of GM's overall value. Microsoft's investment adds to Cruise's list of outside support, including **Honda Motor** (HMC – $27.59), which committed $750 million in 2018 followed by an additional $2 billion over the next twelve years.

With Tesla miles ahead at present and the enthusiasm for diesel cars all but gone following VW's Dieselgate emissions rigging scandal, the race to roll out electric and hybrid vehicles with autonomous capabilities to meet global emissions goals is underway. Of course, GM's Cruise segment is focused on the autonomous aspects of the car, but it uses GM's Chevy Bolt as a development platform, and we expect that the technology will eventually be deployed across all of GM's brands. At a company level, GM is targeting 30 new EVs in the next five years, while marques such as Cadillac will have a mostly fully electric vehicle lineup by 2030.

We think GM remains in decent financial shape and shares trade at just 9 times next year's estimated earnings, noting that the internal combustion engine is not yet ready to go the way of the dinosaur. We do believe that the switch to electric cars will accelerate as battery technology improves (and range anxiety subsides), advanced safety features become standard and existing infrastructure is upgraded to allow for widespread charging, and we expect GM to be a major player. The dividend remains paused for now, while shares have soared from March 2020's $16.80 low as the EV fanboys have gravitated to the stock. We have hiked our Target Price for GM to $68, but we can't ignore the fact that it trades for 0.67% of sales while Tesla sports a revenue multiple 15 times higher.

Semiconductor giant **Intel** (INTC – $56.66) reported adjusted earnings per share of $1.42, versus the $1.11 estimate, in fiscal Q4 2020. INTC had sales of $20.0 billion, versus the $17.5 billion estimate. Intel released its report several minutes prior to Thursday's market close initially due to the claim that the company was hacked and the hacker was in possession of the Q4 results, only to say it was actually because of an internal error. Shares initially soared on the earnings report, gaining more than 6% on Thursday, a trajectory which reversed mightily in Friday's trading due to management offering more uncertainty for the chip titan.

Outgoing CEO Bob Swan said that the company will look to outsource manufacturing, a practice Intel has historically shunned, "We will continue to leverage the relationships we've developed over the years with our external foundry partners and believe they can play a larger role in our

product road map given our disaggregated designs." But incoming CEO Pat Gelsinger said, "I am confident that the majority of our 2023 products will be manufactured internally. At the same time, given the breadth of our portfolio, it's likely that we will expand our use of external foundries for certain technologies and products. We will provide more details on this and our 2023 road map once I fully assess the analysis that has been done and the best path forward." Mr. Gelsinger starts in mid-February and we expect that he will offer periodic updates as he gets up to speed. Needless to say, we would prefer that management get on the same page.

That said, CFO George Davis offered guidance, "Our outlook for 2021 excludes the NAND business. We expect Q1 revenue of $17.5 billion, down 12% year-over-year or down 6%, excluding NAND. We see continuing strong demand for notebook PCs in Q1, up significantly year-over-year, and expect desktop volumes to be down year-over-year. We anticipate further cloud digestion and continued COVID demand impacts on IOTG. The Q1 revenue estimate also includes approximately $500 million in corporate revenue that is onetime in nature and relates to a prepaid revenue arrangement. As we look at the remainder of the year, we see solid TAM growth in our core markets in 2021. We expect PC demand to be more first half weighted than normal seasonality and expect data-centric demand to be more concentrated in the second half as cloud digestion eases and COVID-impacted markets such as enterprise, data center and IoT improve. We have strong product road maps but have anticipated a more competitive market and a continued mix shift to entry consumer PCs in our revenue plans this year. Finally, we will see lower modem revenue this year from our exit of that business. Gross margin in Q1 is expected to be approximately 58%, down year-over-year by approximately 4 points on mix-related ASPs from lower Xeon XCC volume and higher small core PC units, partially offset by lower margin impact from divested businesses and some improvements from our DCG adjacencies. Q1 operating margin is expected to be approximately 30%. We are forecasting EPS of approximately $1.10 per share and a tax rate of 14.5%."

Intel shares have been battered by repeated manufacturing disappointments and significant technical gains by rivals, but the company continues to churn out substantial profits and generate massive cash flow. Mr. Gelsinger asserted, "Great companies are able to come back from periods of difficulty and challenge, and they come back stronger, better and more capable than ever. And that, I believe, is the opportunity at Intel." While our patience has been tested of late, we still share Mr. Gelsinger's optimism and note that the shares trade for less than 12 times forward earnings estimates, while the balance sheet is strong and management just hiked the dividend from $0.33 to $0.3475 quarterly, pushing the yield to 2.5%. Our Target Price for INTC now resides at $68.

Global provider of computer solutions and advanced technologies leader **Int'l Business Machines** (IBM – $118.61) earned $2.07 per share in fiscal Q4 2020 (vs. $1.79 est.). IBM had sales of $20.4 billion (vs. $20.7 billion est.). The year is the eighth in a row that IBM has reported a revenue decline, evidence that the company continues to struggle in the cloud computing race. While CEO Arvind Krishna has done a reasonable job in his first year given a difficult hand he was dealt, the company has significant work left to do in order to right the ship and investors have lost patience, as evidenced by the $13 plunge in the stock price post-announcement on Friday.

Not surprisingly, Mr. Krishna was relatively upbeat in his comments, "We will significantly increase our focus on our hybrid cloud and AI capabilities, the 2 most important transformational journeys for our clients…We have taken a series of important actions to redefine our future as a hybrid cloud platform and AI company. This is where we are focusing the bulk of our efforts, time and investments. In spite of the many challenges in 2020, we have made good progress. In 2021, and we believe you will see that progress showing up in our results. With that said, we know it's not necessarily going to be a straight line. The operating environment remains difficult because of what clients are experiencing at the moment. We can see that in the quarter just past. Our revenue was slightly behind typical seasonality, but we finished strong in free cash flow, which is important as it's the fuel for investments."

He concluded, "At a high level, in 2021, we expect to grow revenues at current spot rates, with better performance in the second half than the first half. This is the first step towards achieving mid-single-digit revenue growth post separation. And we expect to generate between $11 billion to $12 billion of adjusted free cash flow. These are the measures we are focused on. This is where we stand today and how we will operate to achieve our growth goal."

The separation Mr. Krishna references relates to IBM's plan to split into a Cloud/AI company and Managed Infrastructure company. IBM previously said the corporate action will be completed by the end of 2021, which we think is a long runway to conclude a fairly common move. IBM's position in our broadly diversified portfolios remains below our equally weighted target, but we are now waiting until we have more visibility into the financials and prospects for each of the new stand-alone companies, though we have long believed that the sum of the parts is worth more than the whole. We will continue to keep watch on the stock, while we collect our 5.5% annualized dividend yield, to determine its future, or lack thereof, in our portfolios. For now, our Target Price for IBM has been trimmed to $164.

Hard-disk-drive maker **Seagate Technology PLC** (STX – $60.00) reported earnings per share of $1.29, versus the $1.13 estimate, in fiscal Q2 2021. STX had sales of $2.62 billion (vs. $2.56 billion est.). Despite the strong beat and good outlook, shares fell 5% as analysts perplexingly suggested that the company's revenue outlook was disappointing despite the midpoint coming in above the consensus. STX expects Q3 EPS between $1.15 and $1.45 (est. $1.25) and revenue between $2.45 billion and $2.85 billion (est. $2.64 billion). STX repurchased 18 million shares, or 7% of shares outstanding, since the beginning of the quarter. Between share buybacks and dividends, STX returned $1.2 billion to shareholders. We suspect that analyst estimates did not include the substantial share repurchases that propped up STX's EPS range.

STX CEO Dave Mosley said, "Against the backdrop of the pandemic, 2020 was headlined by diverging in market trends. Strong cloud investments to support a remote economy and digital transformation were countered by significant disruptions to enterprise IT spending. However, during the December quarter, the enterprise markets began to recover for the first time since the onset of the pandemic. The improvement was most pronounced amongst large enterprise OEM customers, which led to strong sequential revenue growth for both nearline and mission-critical drives. We anticipate this positive trajectory to continue, which is consistent with analysts' expectations for on-prem IT hardware investments to pick up in calendar year 2021. Cloud data center demand remains healthy, with the overall data demand drivers intact. Analysts project

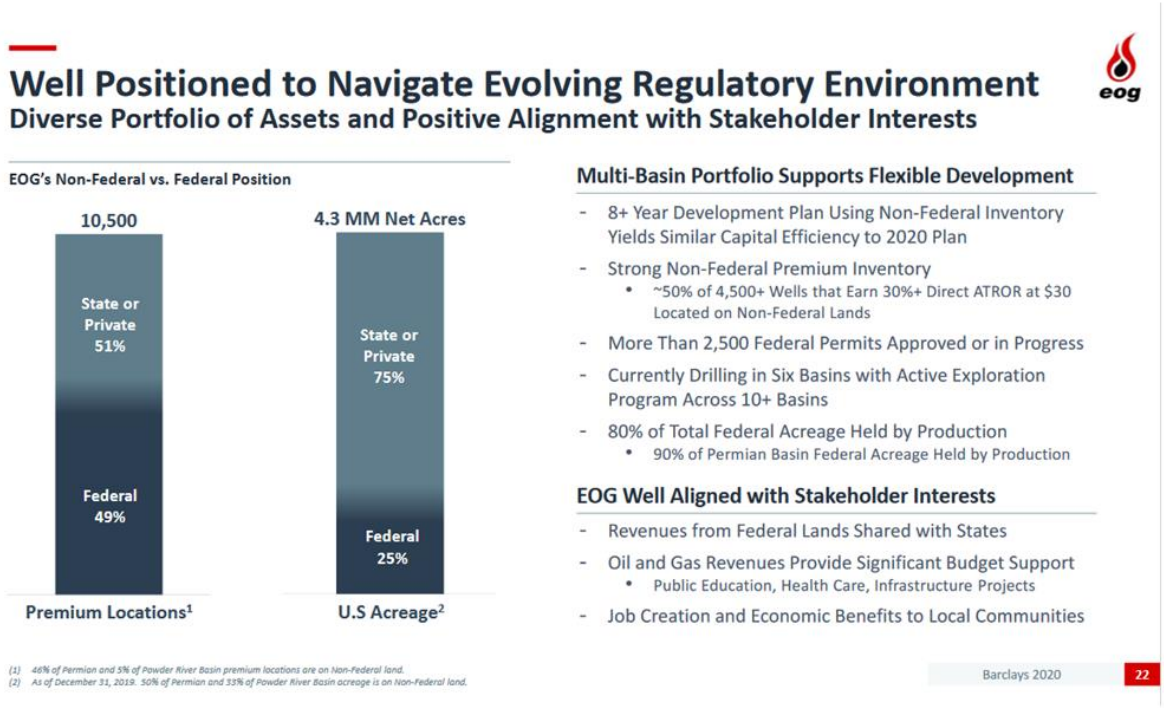
strong double-digit growth in cloud CapEx in 2021 and which bodes well for Seagate and aligns with our expectation for cloud HDD storage demand to increase through the balance of the fiscal year and drive significant growth longer term."

Mr. Mosley continued, "Driving platform level innovation and addressing the growing challenges faced by the distributed enterprise is a mandate that will help define our long-term growth strategy. We plan to share more details on the live storage platform and the rest of our unfolding strategy on February 24, when we will be hosting a virtual analyst and investor event. I look forward to having you join us. With that, I'll now turn it over to Gianluca to walk through the December quarter."

CFO Gianluca Romano added, "Seagate continued to execute well and adapt to the rapidly changing business environment, as shown by our strong December quarter performance, which was supported by the anticipated recovery in the enterprise market, record revenue for video and image applications and seasonal demand for our consumer and desktop PC products… Following this period of strong demand, we anticipate March quarter sales to be sequentially lower and below typical seasonal trend… We shipped a total of 365 exabytes in the calendar year 2020, up 59% year-over-year, which is well ahead of the long-term CAGR forecast of about 35% for this market segment."

Seagate continues to generate solid free cash flow, which was $314 million last quarter, up nearly 70% quarter-over-quarter, giving management flexibility to invest in new projects or return cash to shareholders. The company's dividend yield stands at 4.5%, while the valuation remains very reasonable (including a forward P/E ratio around 11). Our Target Price for STX has been raised to $74.

Rallying along with the price of oil over the last couple of months, shares of exploration and production company **EOG Resources** (EOG – $54.86) took a breather last week amid news that the Biden administration would suspend new oil and gas leasing and drilling permits on federal lands. The move should have been largely expected, in our opinion, as it fulfills the new President's intentions that were declared during the campaign. We think the selling in the stock was quite overdone, however, given the strength of EOG's non-federal asset portfolio which management states is large enough to fuel 8 years of planned development. Moreover, the order did not limit existing oil and gas operations under valid leases, and back in September of 2020 CEO Bill Thomas hinted at the possibility of pursuing international deals when he said, "We're seeing some opportunities where the deal structures are now modifying to where the returns on some of these plays could be equal or better than what we have in the U.S."



Even as the U.S. and other developed countries slowly shift away from fossil fuels, we think the transition is measured in decades and vast emerging economies around the world will continue to increase consumption. With new invested capital in the energy space greatly diminished, we like that EOG is one of the most technically proficient operators, with premium exposures in the Permian Basin, Eagle Ford and the Bakken formations, and enhanced recovery technology that can materially increase the recovered resources in its wells. The ride will be bumpy, but EOG provides a lot of upside potential. The dividend yield is currently 2.7% and our Target Price is $74.

Despite turning in a massive bottom-line blowout in Q4 results, shares of **Goldman Sachs Group** (GS – $289.39) fell more than 6% last week as investors took profits and evidently expressed doubt that the investment banking giant will be able to continue delivering strong numbers. For the quarter, GS reported a top-line of $11.74 billion, which was more than 18% higher than expectations, and adjusted EPS of $12.08, more than 65% better than the consensus analyst estimate ($7.31). Goldman benefitted from higher year-over-year net revenue across all segments, including significant increases in Global Markets and Investment Banking.

Goldman CEO Dave Solomon stated, "It was a challenging year on many fronts, and I am deeply proud of how our people helped clients respond to the economic disruption brought on by the

pandemic and the extreme market volatility experienced over the past months. Our people responded admirably to a series of professional and personal challenges, while working from home or in offices that were reshaped dramatically. Thanks to their perseverance, we were able to help clients navigate a difficult environment, and, as a result, achieved strong results across the franchise, while advancing our strategic priorities. We hope this year brings much needed stability and a respite from the pandemic, but we remain ready to handle a wide range of outcomes and are poised to meet the needs of our clients."

Strong activity levels, a healthy balance sheet and sound strategic repositioning have us thinking that GS shares remain quite attractive for the long-term, especially given the fantastic results the company has been able to produce the last three quarters. We would not be surprised to continue to see strong earnings versus competitors because of the company's lower interest-rate exposure. The build out of its traditional banking and investment-management businesses should serve shareholders well in the long run, as currently almost two-thirds of Goldman's revenue comes from its investment banking and global markets trading business segments. The ultimate goal of Goldman's evolution is to change the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. That said, we realize that it may take a few years for the efforts to begin to be truly rewarded by investors. Our Target Price for GS has been raised to $335.

Shares of **Bank of America** (BAC – $31.55) slid 3.7% last week even as the diversified financial services giant edged out bottom-line consensus analyst expectations for Q4. BofA earned $0.59 per share in the period (vs. the $$0.55 est.), pushing EPS for all of 2020 to $1.95. Tangible book value grew 6% even as the company built a loan-loss allowance worth over 2% of total loans. Fee revenue from investment banking, asset management and trading continue to offset sequential reductions in net interest income which remains under pressure.

CEO Brian Moynihan stated, "During 2020, we witnessed the dramatic effects of the health crisis on the economy and our company's operations. In the fourth quarter, we continued to see signs of a recovery, led by increased consumer spending, stabilizing loan demand by our commercial customers, and strong markets and investing activity. The latest stimulus package, continued progress on vaccines, and our talented teammates – who performed well helping their customers through this crisis – position us well as the recovery continues."

CFO Paul Donofrio added, "Despite one of the worst economic environments in modern memory, we ended the year stronger than before the health crisis and well positioned to support our clients. We grew deposits by $361 billion, improved our capital ratios and increased liquidity to record levels, exceeding loans. Because of the responsible way we have operated the company over many years, we were able to support the economy by raising $772 billion in capital on behalf of clients, invest in our franchise and still be in a position to return $4.8 billion in capital to our shareholders in the first quarter of 2001 in the form of common stock repurchase and dividends."

2020 Strategic Progress

Consumer

- Record deposit balances and retained the #1 deposit market share position for retail deposits [1]
- Held a top 3 leadership position for retail deposits in 25 of the top 30 U.S. markets, including 14 #1 positions [1]
- Record Consumer investment balances surpassed major milestones:
  - >$300B in balances
  - >3MM accounts

GWIM

- Record client balances of >$3.3T [2]
- Product integration continued to improve as more Merrill Lynch clients utilized our bank platform services, with deposit balances up 28% YoY
- In 2020, Merrill Lynch added ~22k net new relationships and Private Bank added ~1,800
  - Record year for $10MM+ relationships across the two businesses

Digital

- 69% of Consumer and Wealth Management households are digitally active, generating 9B logins in 2020
- Digital accounted for 42% of consumer sales this year
- Erica:
  - Users grew 67% to 17MM
  - 1.4MM hours of client interactions
  - 58% of all interactions were in 2020
- Zelle volume grew 80% YoY
- Launched Life Plan in September, 2.1MM plans already created
- Record sign-ins through CashPro App, surpassing 1MM in 2020

Global Banking

- Focused on supporting our clients through the COVID-19 crisis with calls to clients up ~60%
- Record annual Investment Banking (IB) fees with three of our strongest quarters in the Company's history
- Improved IB ranking to #3 and grew market share 70 bps, including highest ever share in ECM and M&A [3]

Global Markets

- #1 Research platform in the world [4]
- FY 2020 Sales and Trading revenue up 17% YoY, excluding net DVA; [5] highest annual revenues since 2010
  - Record post-merger Equities revenues, up 10% on previous best year of 2018
- FY 2020 net income of $5.2B; highest since 2009

ESG Proprietary research, sustainable financing initiatives, societal investments including $1B commitment to address racial injustice, achieved carbon neutrality goals, $20 per hour minimum wage, joined the Partnership for Carbon Accounting Financials (PCAF) initiative

[1] Estimated retail consumer deposits based on June 30, 2020 FDIC deposit data.
[2] EOP balances as of December 31, 2020.
[3] Per Dealogic as of January 1, 2021.
[4] Institutional Investor, 2019.
[5] Represents a non-GAAP financial measure. See note E on slide 31 and slide 34 for important presentation information.

5

Despite the difficult operational landscape due to the pandemic and low interest rate environment, BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the multiple levers the bank has to generate business. Moreover, we expect growth in digital engagement to continue, driving further reduction of the physical footprint and the associated cost savings. Shares trade for 13.4 times NTM adjusted EPS projections, while the dividend yield is 2.3%. We think the combination of low-cost funding and capital strength present a lot to like for the current year and beyond. Our Target Price for BAC is now $41.

Despite turning in a very good Q4, shares of **Morgan Stanley** (MS – $74.13) fell more than 3% last week as some of the strong momentum enjoyed by stocks in the Financials sector over the past few months dissipated a bit. Adjusted EPS for the three months came in at $1.92, more than 48% higher than the consensus analyst estimate. Besides top-line results being better than expected, MS also delivered stronger efficiency and capital ratios. The company continues to make progress on its strategic shift and is producing strong results. The acquisition of E-Trade has placed MS among the top three in key wealth channels (advisor, work and direct), giving the company growing access to deposits and an asset base while continuing to capitalize on synergistic opportunities.

CEO James Gorman commented, “The firm produced a very strong quarter and record full-year results, with excellent performance across all three businesses and geographies. I am extremely proud of how our employees came together to support each other and our communities and deliver for our clients in an incredibly challenging year. Our unique business model continues to serve us well as we further execute on our long-term strategy with the acquisitions of E*TRADE and Eaton Vance. We enter 2021 with significant momentum, and I am very confident in our competitive position and our opportunities for continued growth.”

We like the diversifying acquisition of Eaton Vance and we also believe the recently closed purchase of E-Trade gives MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted wealth-management clients. In the near-term, we believe MS will benefit from continued strong capital market activities, and we see the opportunity to take larger wallet share in wealth management. While financial stocks have done well recently, they continue to face headwinds in the low-interest-rate environment. That said, MS has performed well and we are constructive on its lower exposure to consumer and commercial loans, the healthy balance sheet and the relatively inexpensive valuation. Our Target Price has been raised to $87.

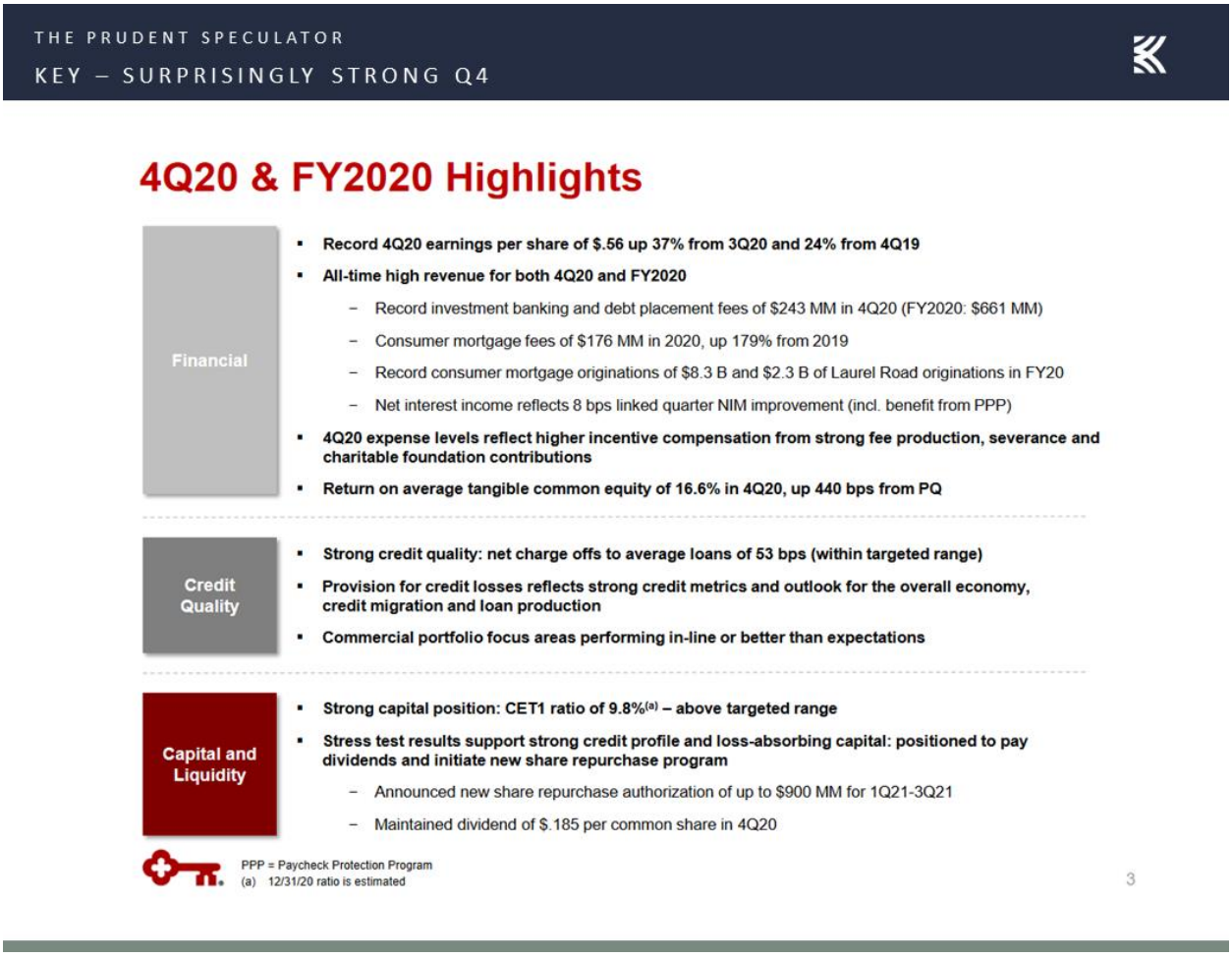
Shares of **Bank of New York Mellon** (BK – $41.93) tumbled nearly 5% last Wednesday even as the firm reported earnings from Q4 that beat analyst estimates ($0.96 vs. $0.90). When adjusted for the sale of an equity investment in 2019 and certain items in 2020, full-year earnings were essentially the same as the prior year at $4.01 per share, as fees from higher assets under custody/management offset the impact from lower rates and money market fee waivers. BK grew book value per share by 10.5% over the past year, and the firm’s capital base remains strong with a CET1 ratio of 13.1% as of December 31.

CEO Todd Gibbons commented, “During 2020, our business and operational resilience, enhanced by our technology and digital capabilities, enabled us to rapidly support our clients, employees and the financial system through immense stress and volatility. At the same time, we continued to advance our strategic priorities and longer-term growth agenda across all of our businesses. The investments we’ve made over the past several years, especially in technology and operations, served us and our clients well amid some difficult circumstances, and I want to thank our employees for their extraordinary efforts in supporting our clients during an unprecedented year.”

Mr. Gibbons further noted, “While the full-year impact of low interest rates will be a significant headwind in 2021, we ended the year with momentum in our core franchise. We feel good about our business model and the power of the open architecture platforms and solutions we provide to help our clients grow their businesses. Our enterprise is incredibly strong and interconnected and our breadth of services and capabilities is unrivaled within our peer group, positioning us well for future growth. We have one of the industry’s best client rosters and a highly motivated group of talented employees executing our strategy, which is centered on driving growth and creating value for our clients, scaling and digitizing our operating model, and fostering a high-performance culture that is focused on delivering excellent client service in new and innovative ways.”

Admittedly, outsized exposure to short-term rates presents unique challenges for BNY Mellon in the current environment. However, we continue to think BK maintains strong market positions in several segments (particularly in its Pershing business and certain other asset services offerings). Shares trade at 90% of book value and management expects to resume share repurchases in Q1. The dividend yield is 3.0%. Our Target Price for BK presently stands at $56.

KeyCorp (KEY – $18.20) released Q4 results that beat the top- and bottom-line consensus analyst estimate. The regional bank earned $0.57 per share last quarter, a 24% improvement year-over-year, backed by strong investment banking results. Like many competitors, healthy deposit growth and lower funding costs throughout 2020 maintained net interest income even amidst remarkably low interest rates. Net charge-offs were a reasonable 54 bps in Q4 despite creeping up slightly over the Q3 figure. KeyCorp intends to close 70 branches throughout 2021 as it says its customers progressively choose digital channels over physical branches.



Chairman and CEO Chris Gorman commented, “Despite the challenging environment of the last year, we were able to support our clients, invest in and grow our businesses, while maintaining our strong risk practices. Our success was driven by our dedicated team, the strength of our business model and our relentless focus on executing our strategy. I am confident in Key’s future. We are positioned to succeed and continue to deliver on all of our commitments.”

The bank's digital division Laurel Road, which it acquired in 2019, remains a bright spot, originating $2.3 billion of loans in 2020. In an interview with American Banker last week, Mr. Gorman hinted at the division's pursuit of healthcare clients, "They [Laurel Road] have exceeded every expectation…Think about a digital company that refinances student loans for doctors and dentists that are accredited, employed, have an average salary of about $200,000 per year. These are great clients to get."

Despite the obvious challenges from the pandemic, KEY appears to be firing on all cylinders, and we expect any rate spread increases to be the cherry on top as the bank continues to expand sources of fee revenue. Given the recent success, the Board recently approved a new share repurchase authorization for up to $900 million. Although shares have run markedly higher over the past several months, we note that they are still below levels seen before COVID-19 induced widespread selling in Q1 2020. KEY sports a reasonable P/E ratio of 14.3 and a handsome dividend yield of 4.1%. Our Target Price has been bumped to $23.

Comerica Inc. (CMA – $62.16) shares dropped 2.5% last week, even as the financial concern announced strong earnings for Q4. Adjusted EPS for the three-month period came in at $1.49, more than 25% above the consensus estimate of $1.18. Average deposit costs declined 6 basis points to 11 basis points as the deposit balance grew to $70.2 billion by quarter-end. These trends enabled net interest income growth of 2.4% despite a modestly lower loan balance. CMA actually unwound some of its credit loss allowances in the period as charge-offs (most of which were from the energy book) remained in check at 22 bps of total loans. Even after the adjustment, the loan book remains well-reserved in our view given an allowance that represents 1.9% of total loans.

CMA CEO Curt C. Farmer recapped the year, "Our 2020 results included solid loan performance and a record level of deposits, which helped offset the rapid decline in interest rates. Expenses remained well-controlled and included COVID-related costs. In light of the unprecedented environment, we significantly increased our credit allowance in the first quarter. Credit migration was manageable and our full-year net charge-offs were 38 basis points of average loans, 14 basis points ex-Energy, reflective of our relationship banking strategy and deep credit experience. We maintained our strong capital levels and our book value grew 7% from 2019 to over $55. In summary, a solid performance, particularly considering the difficult economic conditions."

Mr. Farmer continued, "I could not be prouder of the unwavering commitment of our team to serve our customers, communities and each other during this challenging time. During the year, we provided $11 million in assistance to local communities and businesses as well as funded $3.9 billion in Paycheck Protection Program loans to small and medium-sized companies. The compassion and tireless efforts of our colleagues allowed Comerica to persevere and remain in a strong position as we move forward."

We are quite pleased although not all that surprised to see CMA perform at a high level even as rates remain at historic lows. Like many of its peers, shares have rallied strongly in recent months as the credit deterioration expected by many early on in the pandemic has yet to materialize in a meaningful way. And, even as a bit of capital discipline has returned to the sector, we think the bank will work to limit its energy exposure from here and we like the

potential upside when long-term rates move higher. With a CET1 ratio over 10% and given the recent quarter, payment of the dividend (currently yielding 4.4%) appears well covered. A higher-risk, greater-reward bank in our portfolios, our affection for CMA continues as it trades significantly below our current Target Price of $86.

Kovitz Investment Group Partners, LLC ("Kovitz") is an investment adviser registered with the Securities and Exchange Commission. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions. Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.