Market Commentary February 1, 2021

January 31, 2021

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – Trimmed, JWN & VIAC in Millennium Portfolio and STX in PruFolio
TPS 652 – February Newsletter Coming Tuesday
Target Prices – New Listing Soon Will be Posted
Week in Review – Worst Five Days Since October
Health News – More Cases and Deaths, but New Vaccines
GameStop – *Roaring Kitty* vs. the Hedge Funds
History Lesson – Collapse of Dot.com Euphoria…Great for Deep Value
S&P 500 Pure Value – 38 *TPS* Recommendations are Members of the Index
Sentiment – Not a Lot of Enthusiasm for Most Stocks
Corporate Profits – Impressive Q4 Results
Econ Update – 2021 Expected to be a Year of Significant Global Growth
Stock News – Updates on AAPL, MSFT, CMCSA, ABT, CE, SYF, NSC, WHR, WRK, CAT, LMT & GLW

Market Review

A bit of housekeeping before this week's missive. As discussed on Wednesday's *Sales Alert*, we closed out the following Friday morning for our hypothetical Millennium Portfolio: 87 shares of **Nordstrom** (JWN – $35.45) at $37.43 and 104 shares of **Viacom** (VIAC – $48.50) at $50.99; and PruFolio: 78 shares of **Seagate Tech** (STX – $66.12) at $67.36.

Work is also underway on the February edition of *The Prudent Speculator*. If all goes according to plan, *TPS 652* will be emailed out Tuesday evening, February 2. This month we look at equity returns and the January Barometer, the Presidential Cycle, the Super Bowl Indicator and the Chinese New Year, in addition to our annual look at Valuation Factors over time. Note, too, that we are in the process of posting updated Target Prices to theprudentspeculator.com.

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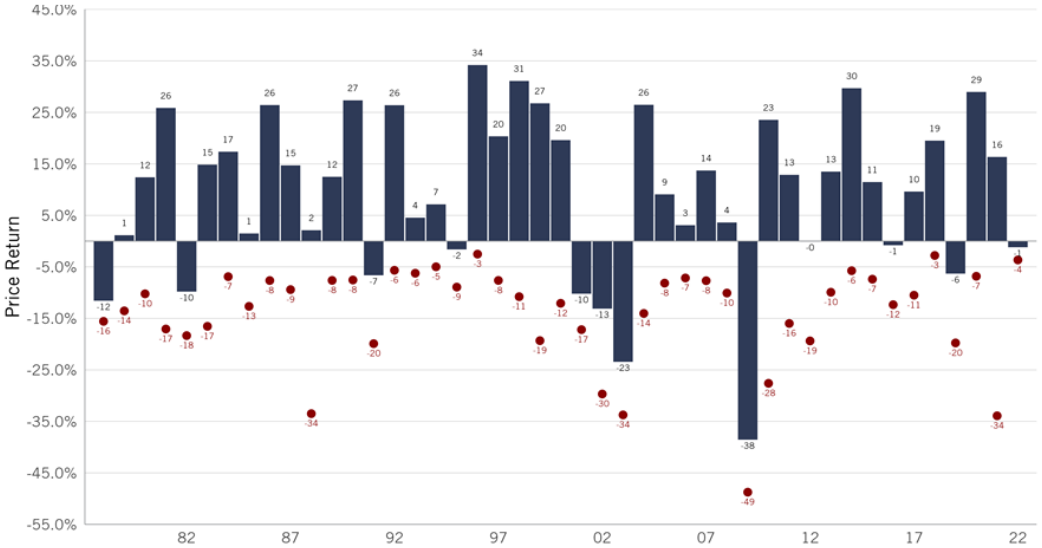
While we know very well that setbacks in the equity markets are hardly unusual,…

THE PRUDENT SPECULATOR

A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 44 years, including a 34% one (on a closing basis) in 2020.



From 12.31.76 through 01.29.21. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…as, despite handsome long-term returns available to those who remember that time in the market trumps market timing, 5% drops (the latest decline has not yet eclipsed that threshold) happen three times a year on average,…

THE PRUDENT SPECULATOR

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	9.9%	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 12.31.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…stocks last week across the board (just about) suffered their worst weekly decline since October.

THE PRUDENT SPECULATOR

UGLY WEEK ALL AROUND…BUT POSITIVE MONTH FOR PURE VALUE

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

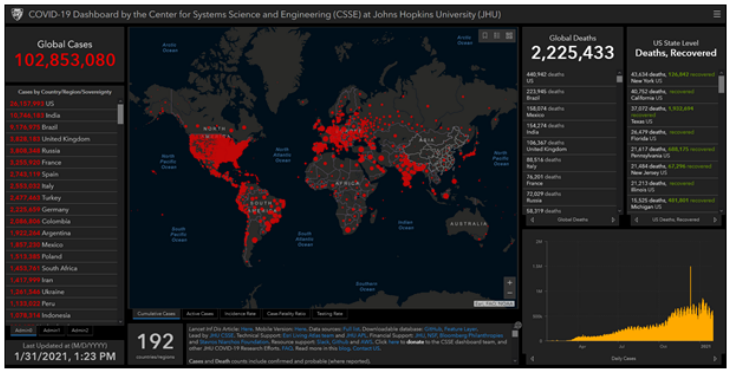
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Since 3.23.20	Last 12 Months	Last 2 Years	Last 3 Years	Last 5 Years	Name
-0.17	-0.88	2.28	4.31	11.46	7.47	14.63	13.19	24.18	Bloomberg Barclays Global-Aggregate Bond
0.03	-0.72	0.40	-0.10	5.64	4.98	15.42	17.31	21.67	Bloomberg Barclays US Aggregate Bond
-3.27	-1.95	13.70	17.90	64.14	6.75	27.84	21.58	105.31	Dow Jones Industrial Average
-3.68	-0.75	16.43	22.15	67.50	6.68	25.56	15.34	70.83	New York Stock Exchange Composite
-3.47	-0.38	15.64	20.70	85.56	32.86	77.06	70.08	171.08	Russell 3000 Growth
-3.47	**-0.52**	**17.83**	**24.84**	**64.70**	**3.44**	**21.43**	**12.41**	**67.16**	**Russell 3000 Value**
-3.47	-0.44	16.69	22.67	76.04	18.72	48.69	40.43	116.24	Russell 3000
-3.70	-0.81	18.22	27.23	78.76	12.06	33.98	26.42	93.19	S&P 500 Equal Weighted
-3.29	-1.01	14.05	18.88	68.46	15.56	46.18	37.93	111.48	S&P 500
-3.28	-0.51	13.60	18.44	77.78	27.92	66.97	61.12	149.77	S&P 500 Growth
-3.29	**-1.58**	**14.98**	**19.80**	**56.35**	**1.03**	**23.37**	**13.55**	**70.61**	**S&P 500 Value**
-4.76	-0.56	16.65	22.47	89.35	25.58	55.80	45.99	126.88	S&P 500 Pure Growth
-3.65	**2.46**	**26.81**	**40.94**	**89.34**	**-2.10**	**6.82**	**-3.27**	**57.08**	**S&P 500 Pure Value**

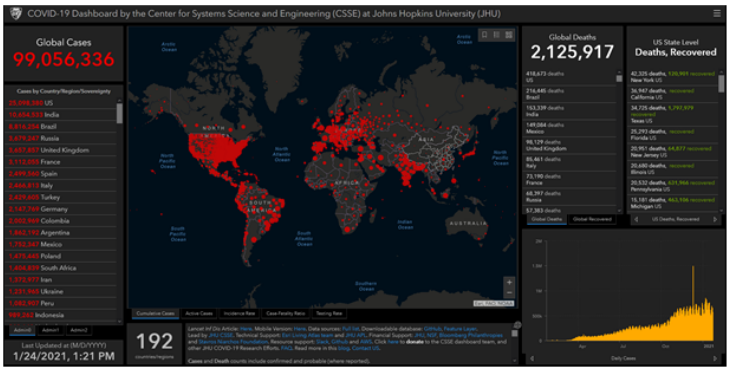
As of 01.29.21. Source Kovitz using data from Bloomberg

Certainly, some will argue that the catalyst for the downturn was the spread of more-contagious coronavirus variants, continued difficulties in getting vaccines distributed and record COVID-19 deaths,…

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASE GROWTH RATE SLOWS BUT DEATHS STILL RISING





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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 3.8 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 440,000 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 100,000, up from 98,000 the week prior, and the "confirmed case" mortality rate bumped up to 2.16%.

…but headlines in *The Wall Street Journal* this weekend included, *New Cases in Nursing Homes are Declining* and *After Winter Surge, Signs of Improvement Surface* and *AstraZeneca's Coronavirus Vaccine Wins EU Green Light*. And, perhaps more importantly, two new vaccines were shown to have promising results, even as some were disappointed with their efficacy rates.

HEALTH

Novavax says its Covid-19 vaccine is 90% effective, but far less so against one variant

By MATTHEW HERPER @matthewherper and DAMIAN GARDE @damiangarde / JANUARY 28, 2021 Reprints

JUSTIN TALLIS/AFP VIA GETTY IMAGES

A Covid-19 vaccine from Novavax proved nearly 90% effective in preliminary results from a key clinical trial in the United Kingdom, the company said, but in a separate trial appeared far less effective against a new variant of the coronavirus that was first identified in South Africa.

In its 15,000-volunteer U.K. trial, Novavax said, the vaccine prevented nine in 10 cases, including against a new strain of the virus that is circulating there. But in a 4,400-volunteer study in South Africa, the vaccine proved only 49% effective. In the 94% of the study population that did not have HIV, the efficacy was 60%.

In the U.K. trial, Novavax observed 62 cases of symptomatic Covid-19, with 56 in the placebo group and six among volunteers who got the vaccine. One patient on placebo developed severe Covid-19, compared with zero in the vaccine group. The company provided few details on the vaccine's safety, saying only that the serious side effects were rare and balanced between the studies' vaccine and placebo groups.

HEALTH

J&J one-dose Covid vaccine is 66% effective, a weapon but not a knockout punch

By MATTHEW HERPER @matthewherper / JANUARY 29, 2021 Reprints

MARK RALSTON/AFP VIA GETTY IMAGES

Johnson & Johnson said Friday that its single-dose Covid-19 vaccine reduced rates of moderate and severe disease, but the shot appeared less effective in South Africa, where a new coronavirus variant has become common.

Overall, the vaccine was 66% effective at preventing moderate to severe disease 28 days after vaccination. But efficacy differed depending on geography. The shot was 72% effective among clinical trial volunteers in the U.S, but 66% among those in Latin America, and just 57% among those in South Africa. Though markedly below the levels seen with the first two authorized Covid-19 vaccines, those rates are above the thresholds originally set by the U.S. Food and Drug Administration for a vaccine to be considered useful.

The vaccine reduced severe disease alone by 85%, and prevented Covid-related hospitalization or death, Johnson & Johnson said.

"In a pandemic, if you can, with a single-dose vaccine, very quickly eliminate the severe consequences of death, hospitalization, and severe disease, that's what's important for society," Paul Stoffels, the company's chief scientific officer, told STAT.

The actual catalyst, in our view, for the quick trip south in the major market averages was related to frenetic trading in heavily shorted names, such as struggling brick-and-mortar video game retailer GameStop and virtually empty-cinema operator AMC Entertainment. These and a handful of other companies have gained particularly strong attention from retail investors, as social media posts helped fuel trading.

Surging prices quickly triggered "short squeezes," as investors who had borrowed stock to sell short with the expectation that the price would decline, were forced to either put up more collateral or to cover (i.e. buy) to satisfy margin or borrowing requirements. Many of the short sellers, including at least one prominent hedge fund, had little choice but to close out some of or all their positions, so their slew of purchase orders only added to the demand for the stock.

Of course, losses on short positions are theoretically unlimited, so the higher a stock rises, the more collateral is required to maintain the short and the greater the pressure to cover. In addition, there is often interest charged to short-sellers for hard-to-borrow stocks, which can add to the total losses on a position that has moved in the wrong direction. To be sure, in most market conditions, there is sufficient volume in individual stocks and the interaction between long stockholders and short sellers is balanced, so short squeezes are rare occurrences.

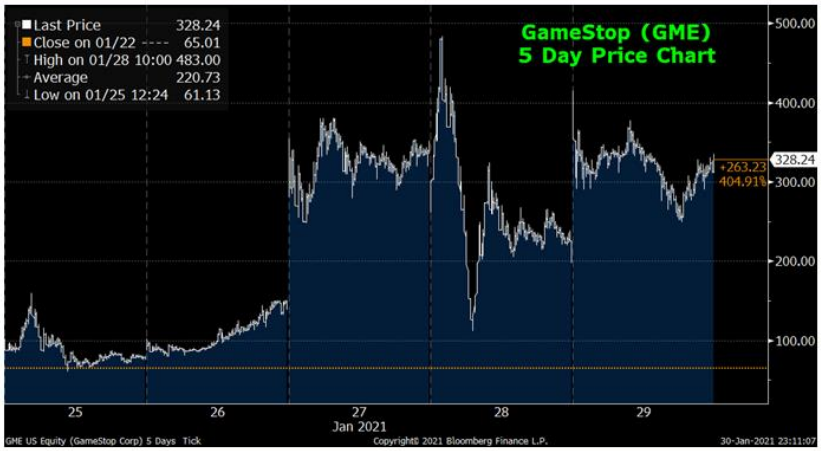
Enter GameStop. The short interest for GameStop on January 15 was said to be 123%. This means that for every 100 shares of GameStop freely available to trade (the "float"), there were 123 shares 'betting' the price would decline. This condition where there are more shares sold short than arguably are available for sale is called naked shorting, and certainly can make a stock more susceptible to a squeeze…provided there is a catalyst to ignite interest in the company.

In the case of GameStop, the internet chatter was aided greatly by sizable purchases of the shares by the co-founder of online pet-store Chewy.com, activist investor Ryan Cohen, who supposedly began accumulating his GameStop stake in September. When Mr. Cohen put forth a plan to GameStop's board to attempt to transform the company into a specialized online retailer of video games, he was granted three board seats and the squeeze began in earnest.

As the share price rose and volume accelerated, GameStop became harder to borrow. In fact, a query of Charles Schwab on January 26 returned an interest rate of 23% were one to borrow 1000 GameStop shares to sell short. True, that is the annual rate, but one needs a very fast move down to make such an endeavor worthwhile. Not surprisingly, short selling of individual stocks is not part of our strategies, while we note that one of our retailer recommendations had a BIG move up last week from those looking for other heavily shorted stocks.

THE PRUDENT SPECULATOR

GAMESTOP VERSUS FAR MORE REASONABLY PRICED RETAILERS



Retail Metrics

Symbol	Common Stock	1.29.21 Price	1 Week TR %	2021 TR %	Since 3.23.20 TR %	EPS Current Fiscal Year	Current Fiscal Year P/E	EPS Next Fiscal Year	Next Year P/E	EPS Following Fiscal Year	Following Year P/E
BIG	Big Lots	$59.68	17.4	39.0	425.3	$6.85	8.7	$5.59	10.7	$6.67	8.9
FL	Foot Locker	$43.82	-7.8	8.7	146.7	$2.56	17.1	$4.48	9.8	$4.88	9.0
JWN	Nordstrom	$35.45	-5.1	13.6	127.1	-$3.95	-9.0	$1.43	24.8	$1.89	18.8
KSS	Kohl's	$44.06	-2.5	8.3	236.6	-$2.70	-16.3	$2.49	17.7	$3.04	14.5
LOW	Lowe's Cos	$166.85	-3.2	4.3	150.2	$8.71	19.2	$9.33	17.9	$10.75	15.5
TGT	Target	$181.17	-5.6	2.6	90.1	$9.08	20.0	$8.83	20.5	$9.63	18.8
TPR	Tapestry	$31.62	-7.9	1.7	198.9	$2.35	13.5	$2.63	12.0	$2.91	10.9
GME	GameStop	$325.00	399.9	1625.1	8430.2	-$2.10	-154.8	-$0.21	-1547.6	$1.35	240.7

As of 1.29.21. Source: Kovitz using data from Bloomberg

There have been some fantastic returns in the retail industry since the equity markets hit bottom 10 months ago, but the action in GameStop (GME) has been other-worldly and hardly reflective of the video game vendor's earnings prospects.

While we have long been aware of GameStop and held the stock more than a decade ago, we own what we believe to be far more reasonably priced stocks in the retail sector, all of which we think have much-more viable long-term business models. That said, we can't help but smile when reading stories in recent days about the fellow who arguably ignited the speculative craze in GameStop. His name is Keith Gill, aka *Roaring Kitty*, aka *DeepF——gValue* and he claims, "I'm a fundamental value investor through and through."

Of course, the short-squeeze frenzy led to trading restrictions of some stocks and caused a significant pick-up in overall market volatility as hedge funds and other short-sellers had to raise cash not just by covering their shorts, but also by selling some (and perhaps even more) of their long positions in order to balance their overall exposure. Given that hedge funds closed their monthly books on Friday, we surmise that there was a lot of pressure to deleverage.

As long-term-oriented investors and quoting Warren Buffett, we view volatility as a friend to the buyer of long-term values. After all, one cannot buy cheap and sell dear if stock prices do not gyrate over time, and our mission is to constantly look for opportunities to exchange shares of companies that dipped below purchase limits for those that have soared above long-term target prices. In addition, long-only investors or investors that make light use of margin would not encounter the pitfalls of margin calls, making short squeezes more of a benefit than a concern, provided they have the discipline and the proper asset allocation mix to ride through the ups and downs. While the swings last week were unique in that they were generally spurred by enthusiasm for certain stocks by retail investors, who then piled on, institutional hedge funds experienced much of the heavy bleeding.

To be sure, the wild speculative trading and heavy involvement of the retail investor has many harkening back to the dot.com mania around the turn of the Millennium, which ended very badly for the high-flying internet stocks involved and for the major stock market averages,

THE PRUDENT SPECULATOR

WOULD BE FINE IF NOW IS LIKE MARCH 2000

Despite enduring significant volatility along the way, not to mention suffering through a miserable 2002, 2008 and 2011, Value strategies performed admirably, with the S&P 500 Pure Value index the easy winner, following the bursting of the Tech Bubble in March 2000.

Total Returns Matrix Post March 31, 2000

Name	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol
Dow Jones Industrial Average TR	-8.21	-22.70	6.14	30.81	25.09	132.79	224.39	DJITR Index
Russell 3000 Total Return Growth Index	-42.52	-58.70	-43.96	-31.70	-33.57	37.77	119.25	RU30GRTR Index
Russell 3000 Total Return Value Index	**1.48**	**-17.20**	**33.14**	**76.71**	**41.17**	**167.78**	**190.12**	**RU30VATR Index**
Russell 3000 Total Return Index	-22.26	-40.39	-11.79	12.17	-0.73	97.19	161.01	RU30INTR Index
S&P 500 Growth Total Return Index	-38.19	-50.50	-34.68	-23.23	-25.53	54.87	143.54	SPTRSGX Index
S&P 500 Value Total Return Index	**-1.07**	**-30.12**	**10.04**	**46.09**	**15.97**	**114.98**	**154.67**	**SPTRSVX Index**
S&P 500 Total Return Index	-21.68	-40.93	-14.84	6.40	-6.35	84.03	154.83	SPXT Index
S&P 500 Pure Growth Total Return Index	-31.60	-54.66	-26.15	-10.93	-8.12	119.03	177.90	SPTRXPG Index
S&P 500 Pure Value Total Return Index	**23.92**	**3.59**	**103.40**	**183.68**	**140.69**	**438.00**	**352.33**	**SPTRXPV Index**

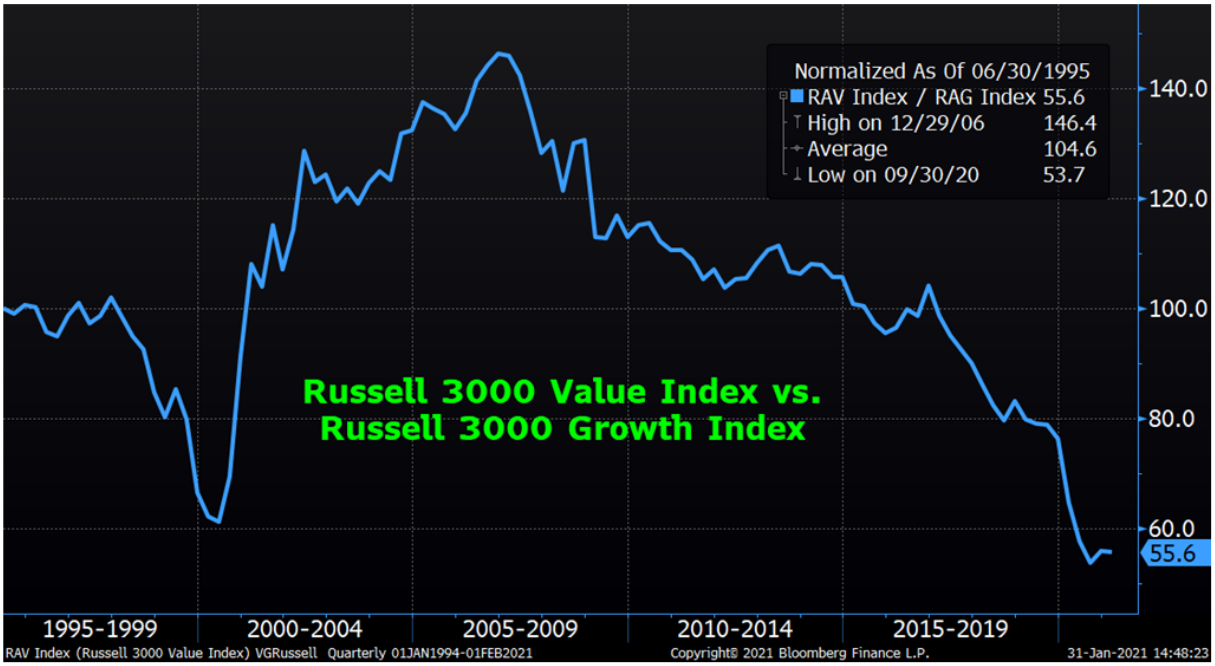
Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

while ushering in a massive renaissance in Value,…

THE PRUDENT SPECULATOR

R3K VALUE "BUY" SIGNAL LIKE 2000

Stocks with inexpensive financial metrics have lagged badly in the wake of COVID-19, but the R3K Value index relative to the R3K Growth index on a total return basis is now near 2000 levels.



…led by the most inexpensive stocks, as represented by the S&P 500 Pure Value index.

THE PRUDENT SPECULATOR

TPS RECOMMENDATIONS & S&P 500 PURE VALUE INDEX MEMBERS

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, but while a sizable number of our current recommendations may not be *DeepF_____gValue,* they are categorized as Pure Value.

S&P 500 Pure Value Index Members

Symbol	Common Stock	1.29.21 Price	Target Price	Sector	P/E	P/S	P/TBV	Div Yld	Symbol	Common Stock	1.29.21 Price	Target Price	Sector	P/E	P/S	P/TBV	Div Yld
ALL	Allstate	$107.18	$147.86	Insurance	8.9	nmf	1.4	2.0%	JPM	JPMorgan Chase	$128.67	$159.58	Banks	14.5	nmf	2.0	2.8%
ADM	Archer-Daniels-Midland	$50.01	$62.28	Food, Bev & Tobacco	13.9	0.4	nmf	3.0%	JNPR	Juniper Networks	$24.42	$34.33	Technology Hardware	15.7	1.8	13.3	3.3%
T	AT&T	$28.63	$41.29	Telecom Services	9.0	1.2	nmf	7.3%	KEY	KeyCorp	$16.86	$22.98	Banks	13.4	nmf	1.2	4.4%
BAC	Bank of America	$29.65	$41.14	Banks	15.9	nmf	1.4	2.4%	KIM	Kimco Realty	$16.51	$18.81	Real Estate	13.5	nmf	1.4	3.9%
BK	Bank of New York Mellon	$39.83	$55.76	Diversified Financials	10.0	nmf	1.7	3.1%	KR	Kroger Co	$34.50	$40.92	Food & Staples Retailing	10.7	0.2	4.4	2.1%
COF	Capital One Financial	$104.26	$135.09	Diversified Financials	18.3	nmf	1.2	0.4%	MCK	McKesson	$174.47	$206.37	Health Care Equip/Srvcs	11.1	0.1	nmf	1.0%
CAH	Cardinal Health	$53.73	$79.92	Health Care Equip/Srvcs	9.4	0.1	nmf	3.6%	MET	MetLife	$48.15	$79.09	Insurance	7.9	nmf	0.7	3.8%
C	Citigroup	$57.99	$97.37	Banks	11.5	nmf	0.8	3.5%	MS	Morgan Stanley	$67.05	$86.92	Diversified Financials	10.3	nmf	1.9	2.1%
CMA	Comerica	$57.20	$85.72	Banks	17.5	nmf	1.1	4.8%	MOS	Mosaic	$25.96	$30.95	Materials	nmf	1.2	1.3	0.8%
CVS	CVS Health	$71.65	$113.46	Health Care Equip/Srvcs	9.0	0.4	nmf	2.8%	PNW	Pinnacle West Capital	$75.25	$105.98	Utilities	13.4	2.4	1.5	4.4%
EOG	EOG Resources	$50.96	$74.16	Energy	24.3	2.4	1.5	2.9%	PNC	PNC Financial Services	$143.52	$169.58	Banks	21.4	nmf	1.5	3.2%
XOM	Exxon Mobil	$44.84	$65.35	Energy	nmf	1.0	1.1	7.8%	PRU	Prudential Financial	$78.28	$126.04	Insurance	8.1	nmf	0.5	5.6%
FITB	Fifth Third Bancorp	$28.93	$38.69	Banks	13.5	nmf	1.2	3.7%	SYF	Synchrony Financial	$33.65	$48.75	Diversified Financials	14.1	nmf	2.0	2.6%
GD	General Dynamics	$146.68	$242.49	Capital Goods	13.3	1.1	nmf	3.0%	TFC	Truist Financial	$47.98	$66.10	Banks	12.5	nmf	1.8	3.8%
GM	General Motors	$50.68	$68.07	Autos & Components	16.9	0.6	1.9	0.0%	TSN	Tyson Foods	$64.31	$92.91	Food, Bev & Tobacco	11.4	0.5	nmf	2.8%
GS	Goldman Sachs Group	$271.17	$334.57	Diversified Financials	8.7	nmf	1.3	1.8%	VIAC	ViacomCBS	$48.50	$65.22	Media & Entertainment	11.4	1.2	nmf	2.0%
HPE	Hewlett Packard Ent	$12.34	$17.26	Technology Hardware	9.1	0.6	nmf	3.9%	WMT	Walmart	$140.49	$163.91	Food & Staples Retailing	25.7	0.7	7.8	1.5%
IP	International Paper	$50.31	$60.32	Materials	16.0	0.9	7.6	4.1%	WRK	Westrock	$41.43	$63.27	Materials	15.0	0.6	8.0	1.9%
SJM	J M Smucker	$116.41	$140.23	Food, Bev & Tobacco	12.0	1.6	nmf	3.1%	WHR	Whirlpool	$185.09	$252.39	Consumer Durables	10.0	0.6	nmf	2.7%

As of 1.29.21. 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, that period was not without its trauma and we must be braced for far more volatility than what was seen last week, with the equity futures Sunday evening moving from sizable losses to modest gains. We also have concern about the incredibly frothy investor appetite for initial public offerings, special purpose acquisition vehicles and profit-/sales-challenged tech stocks, but these generally are not the companies in which we are invested. Indeed, the respective forward P/E ratio and dividend yield on TPS Portfolio stand at 14.6 and 2.4%, compared to 22.1 and 1.6% for the S&P 500, providing ample room, in our view, for additional capital appreciation for the stocks we favor before we would even begin to find them fairly valued.

CURRENT PORTFOLIO AND INDEX VALUATIONS

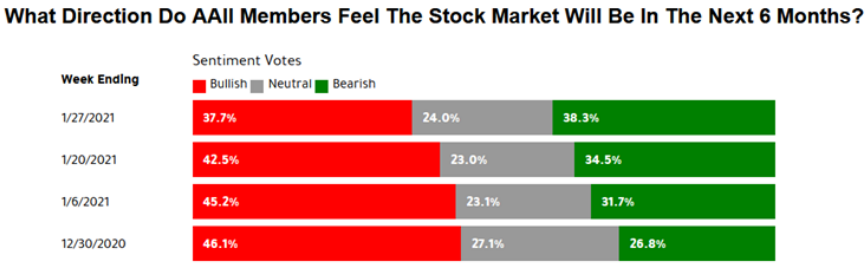
Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	19.1	14.6	1.1	2.4	2.4
ValuePlus	21.6	15.8	1.4	2.4	2.1
Dividend Income	18.4	14.4	1.0	2.4	2.7
Focused Dividend Income	19.8	15.1	1.2	2.7	2.6
Focused ValuePlus	19.8	15.5	1.6	2.5	2.2
Small-Mid Dividend Value	17.4	14.2	0.7	1.6	2.3
Russell 3000	33.9	23.4	2.6	3.9	1.5
Russell 3000 Growth	44.8	32.1	4.7	11.3	0.8
Russell 3000 Value	26.8	18.2	1.8	2.3	2.2
Russell 1000	31.4	22.9	2.8	4.1	1.5
Russell 1000 Growth	40.4	30.6	4.9	12.0	0.8
Russell 1000 Value	25.3	18.0	1.9	2.4	2.3
S&P 500 Index	29.9	22.1	2.8	4.1	1.6
S&P 500 Growth Index	36.7	28.4	5.5	10.0	0.8
S&P 500 Value Index	24.7	17.6	1.8	2.4	2.5
S&P 500 Pure Value Index	15.3	11.1	0.7	1.1	3.0

As of 01.30.21. 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.

Further, outside of a relatively small group of stocks, we really are not seeing irrational exuberance in what many investors are saying about their outlook for the next six months,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULL-BEAR SPREAD PESSIMISTIC



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 = 7.76										
BELOW	-54.0	7.8	873	0.27%	0.23%	1.28%	1.14%	3.69%	3.29%	6.83%	6.08%
ABOVE	7.8	62.9	873	0.16%	0.14%	0.48%	0.39%	1.81%	1.56%	4.52%	4.04%
	Ten Groupings of 1746 Data Points										
1	-54.0	-15.1	175	0.57%	0.50%	2.20%	1.95%	5.88%	5.31%	10.15%	8.90%
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	185	0.08%	0.04%	1.06%	0.97%	2.89%	2.53%	6.05%	5.55%
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	0.08%	0.06%	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%	0.77%	0.69%	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 1.28.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

As often occurs when stocks head south, folks on Main Street became less optimistic last week, as the latest AAII Sentiment Survey saw the number of Bears rise to 38.3%, 7.3 points above normal, while the tally of Bulls came in at 37.7%, 0.8 points below average.

…or what they are doing with their money.

THE PRUDENT SPECULATOR

BONDS REMAIN STUNNINGLY POPULAR

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	1/20/2021	1/13/2021	1/6/2021	12/29/2020	12/22/2020
Total Equity	2,521	-10,285	-13,850	-2,037	-3,214
Domestic	-5,922	-11,020	-11,492	-4,075	-7,549
World	8,443	735	-2,358	2,038	4,334
Hybrid	-612	-693	-1,653	937	-1,271
Total Bond	22,756	23,090	23,811	18,378	12,916
Taxable	18,921	19,053	20,631	14,897	10,840
Municipal	3,835	4,037	3,179	3,482	2,076
Commodities	990	-615	1,326	349	111
Total	25,655	11,498	9,634	17,628	8,542

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

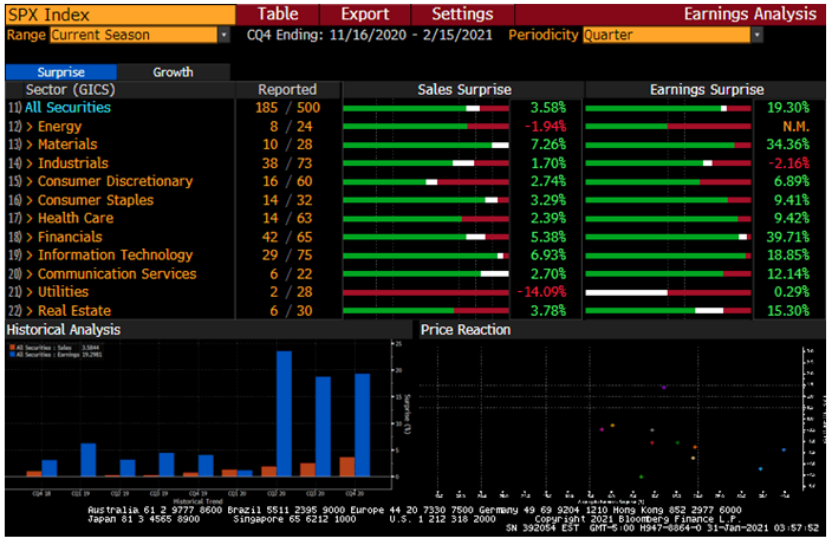
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Jul-16	292	33,575	Jan-18	10,778	46,287	Jul-19	-7,889	44,811
Feb-15	5,547	30,321	Aug-16	-9,956	30,859	Feb-18	-41,444	2,706	Aug-19	-29,908	22,304
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.

More importantly, perhaps, fourth quarter results from Corporate America have been sensational thus far, with Bloomberg calculating that 82.0% of the 185 S&P 500 members to have announced Q4 numbers have beaten EPS expectations and 74% have exceeded top-line guidance.

EPS PLUNGED IN 2020 BUT SHOULD REBOUND MIGHTILY IN 2021

Q4 earnings reporting season has been very good thus far, 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 were not so grand, 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	$45.10	$167.01
9/30/2021	$43.91	$160.08
6/30/2021	$40.35	$154.07
3/31/2021	$37.65	$140.51
12/31/2020	$38.17	$122.36
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 1.21.21

Further, the outlook for 2021 is for massive profit growth over 2020, given a very strong forecast for a bounce back in global economic growth, as the COVID-19 pandemic starts to recede,…

IMF JANUARY WORLD ECONOMIC OUTLOOK – BETTER THAN IN OCTOBER

International Monetary Fund January 2021

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

	Year over Year					
		Estimate	Projections		Difference from October 2020 WEO Projections 1/	
	2019	2020	2021	2022	2021	2022
World Output	**2.8**	**–3.5**	**5.5**	**4.2**	**0.3**	**0.0**
Advanced Economies	**1.6**	**–4.9**	**4.3**	**3.1**	**0.4**	**0.2**
United States	2.2	–3.4	5.1	2.5	2.0	–0.4
Euro Area	1.3	–7.2	4.2	3.6	–1.0	0.5
Germany	0.6	–5.4	3.5	3.1	–0.7	0.0
France	1.5	–9.0	5.5	4.1	–0.5	1.2
Italy	0.3	–9.2	3.0	3.6	–2.2	1.0
Spain	2.0	–11.1	5.9	4.7	–1.3	0.2
Japan	0.3	–5.1	3.1	2.4	0.8	0.7
United Kingdom	1.4	–10.0	4.5	5.0	–1.4	1.8
Canada	1.9	–5.5	3.6	4.1	–1.6	0.7
Other Advanced Economies 3/	1.8	–2.5	3.6	3.1	0.0	0.0
Emerging Market and Developing Economies	**3.6**	**–2.4**	**6.3**	**5.0**	**0.3**	**–0.1**
Emerging and Developing Asia	5.4	–1.1	8.3	5.9	0.3	–0.4
China	6.0	2.3	8.1	5.6	–0.1	–0.2
India 4/	4.2	–8.0	11.5	6.8	2.7	–1.2
ASEAN-5 5/	4.9	–3.7	5.2	6.0	–1.0	0.3
Emerging and Developing Europe	2.2	–2.8	4.0	3.9	0.1	0.5
Russia	1.3	–3.6	3.0	3.9	0.2	1.6
Latin America and the Caribbean	0.2	–7.4	4.1	2.9	0.5	0.2
Brazil	1.4	–4.5	3.6	2.6	0.8	0.3
Mexico	–0.1	–8.5	4.3	2.5	0.8	0.2
Middle East and Central Asia	1.4	–3.2	3.0	4.2	0.0	0.2
Saudi Arabia	0.3	–3.9	2.6	4.0	–0.5	0.6
Sub-Saharan Africa	3.2	–2.6	3.2	3.9	0.1	–0.1
Nigeria	2.2	–3.2	1.5	2.5	–0.2	0.0
South Africa	0.2	–7.5	2.8	1.4	–0.2	–0.1

1/ Difference based on rounded figures for the current and October 2020 WEO forecasts. Countries whose forecasts have been updated relative to October 2020 WEO forecasts account for 90 percent of world GDP measured at purchasing-power-parity weights.2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year. 5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concern s for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5% in 2021 and 4.2% in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

…and the U.S. Federal Reserve remains highly accommodative in its approach to monetary policy,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 1.27.21

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

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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

…with even a modest increase in interest rates that may result leaving yields on investments that compete with stocks at extraordinarily low levels by historical standards.

THE PRUDENT SPECULATOR

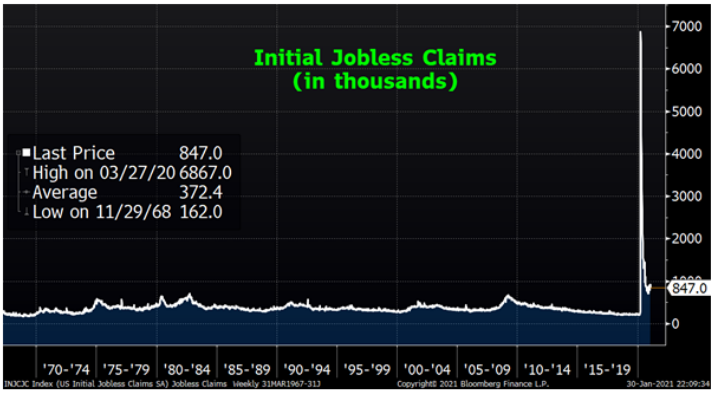
INTEREST RATES VERY SUPPORTIVE OF STOCKS

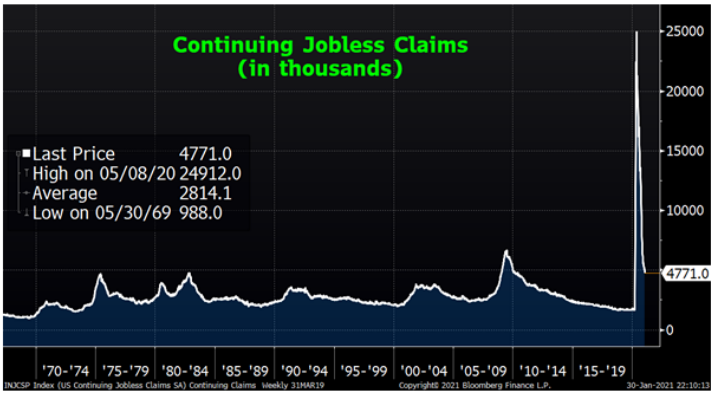
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.35% vs. 1.07% 10-Year) and generous S&P 500 dividend yield of 1.59%.

No doubt, the economic statistics in the near-term will remain mixed at best, given all of the folks 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 847,000 for the period ended Jan. 23, down 67,000 from the week prior. Also, continuing jobless claims filed through state programs dropped by 203,000 to a seasonally adjusted 4.77 million, a new pandemic low. Of course, a massive 76.5 million unemployment claims have been filed since March 20.

…and the less-than-stellar consumer confidence/sentiment figures.

THE PRUDENT SPECULATOR

NOT-SO-GREAT CONSUMER CONFIDENCE/SENTIMENT

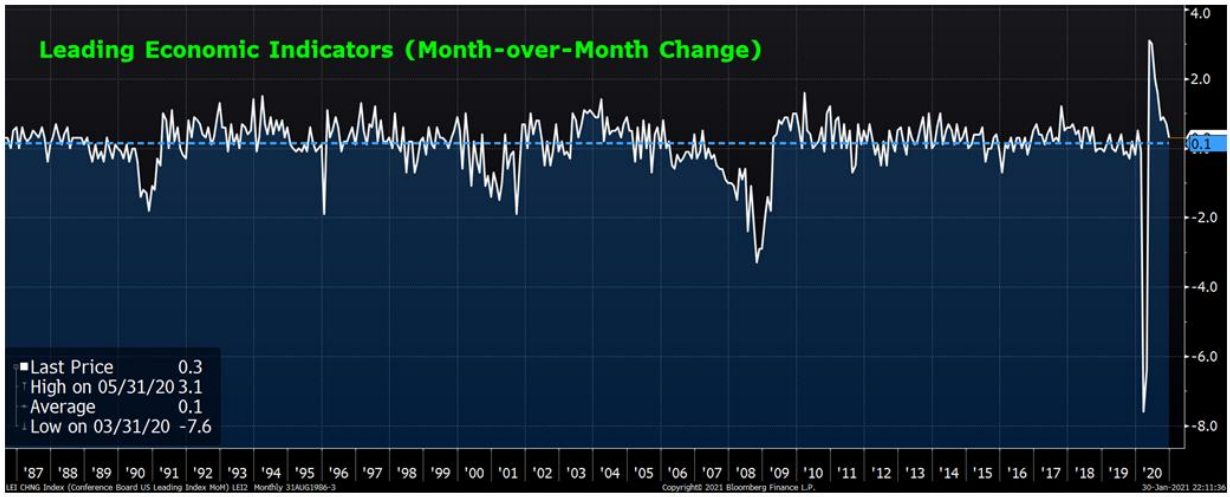
Consumer confidence, per data from the Conference Board, rose this month, climbing to 89.3, up from a revised 87.1 in December and well above expectations. On the other hand, the final Univ. of Michigan gauge of consumer sentiment this month came in at 79.0, near estimates but down 1.7 points from a final reading of 80.7 in December. Both measures were below average, however.

Still, the preponderance of the economic evidence supports a much-improved U.S. economic backdrop this year.

THE PRUDENT SPECULATOR

LEI STILL WELL INTO POSITIVE TERRITORY

The forward-looking Leading Economic Index rose by 0.3% on a month-over-month basis in December, down from a 0.7% advance in November. The average gain in the LEI back to 1986 has been just 0.1%, but the keeper of the metric, stated, "While the resurgence of COVID-19 and weak labor markets remain barriers to growth, The Conference Board expects the economy to expand by at least 2.0% (annual rate) in Q1 and then gain momentum throughout the year."



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 a dozen of our companies that had news out last week of sufficient interest to merit a Target Price review.

Technology hardware designer and manufacturer **Apple** (AAPL – $131.96) earned $1.68 per share in fiscal Q1 2021 (vs. $1.42 est.). AAPL had total revenue of $111 billion, versus the $103 billion estimate. Despite the solid quarter, shares fell 3.5%. Apple reported strong sales in China and double-digit growth in each product category. As of Friday's close, Apple's market capitalization is $2.215 trillion.

CEO Tim Cook commented, "It is not far from many of our minds that this result caps off the most challenging year any of us can remember. And it is an understatement to say that the challenges it posed to Apple as a business paled in comparison to the challenge it posed to Apple

as a community of individuals, to employees, to their families and to the communities we live in and love to call home. While these results show the central role that our products played in helping our users respond to these challenges, we are doubly aware that the work ahead of all of us to navigate the end of this pandemic, to restore normal life and prosperity in our neighborhoods and local economies and to build back with a sense of justice is profound and urgent."

Mr. Cook concluded, "Here in the United States, even with COVID's effects, we are ahead of schedule on our multiyear commitment to invest $350 billion throughout the American economy. As proud as this makes us, we know there is much more to be done. Looking forward, we continue to contend with the COVID-19 pandemic, but we must also now work to imagine what we will inherit on the other side. When a disease recedes, we cannot simply assume that healing follows. Even now, we see the deep scars that this period has left in our communities. Trust has been compromised. Opportunities have been lost. Entire portions of our lives that we took for granted, schools for children, meetings with our colleagues, small businesses that have endured for generations have simply disappeared. It will take a society-wide effort across the public and private sectors as individuals and communities, every one of us, to ensure that what's ahead of us is not simply the end of a disease but the beginning of something durable and hopeful for those who gave, suffered and endured during this time. At Apple, we have every intention to be partners in this effort, and we look forward to working in communities around the world to make it possible. And as this chapter of uncertainty continues, so will our tireless work to help our customers stay safe, connected and well."

CFO Luca Maestri offered the outlook, "For total company revenue, we believe growth will accelerate on a year-over-year basis and in aggregate, follow typical seasonality on a sequential basis. At the product category level, keep in mind 2 items: First, during the March quarter last year, we saw elevated activity in our digital services as lockdowns occurred around the world, so our Services business faces a tougher year-over-year comparison; second, we believe the year-over-year growth in the Wearables, Home and Accessories category will decelerate compared to Q1. As you know, we were chasing demand on AirPods last year as we expanded channel inventory from Q1 to Q2. This year, we plan to decrease AirPods channel inventory as is typical after the holiday quarter. We expect gross margin to be similar to the December quarter. We expect OpEx to be between $10.7 billion and $10.9 billion. We expect OI&E to be up around $50 million and our tax rate to be around 17%."

Apple's quarterly dividend remains at 20.5 cents per share and the company's mountain of cash is $196 billion tall (which is enough to buy about 470 of the 500 companies in the S&P 500 for cash at their current market capitalizations). We are pleased to see Apple diversify some of its manufacturing away from China, while the company has taken to designing a growing set of its own chips lately. We continue to be fans of Apple and our Target Price is $152. It remains one of the largest holdings in our broadly diversified portfolios, which we are comfortable with at present despite its stretched valuation relative to its own history.

Computing giant **Microsoft** (MSFT – $231.96) earned $2.03 per share in fiscal Q2 2021 (vs. $1.64 est.). MSFT had total revenue of $43.1 billion, versus the $40.2 billion estimate. Shares gained slightly following the report and still managed to eke out a 2.7% advance for the week

despite the market retreat on Friday. Cloud performance in Q2 was widely regarded as a 'blowout' quarter. The unit's revenue climbed to $14.6 billion, nearly a billion dollars higher than the $13.75 billion consensus estimate, and up 34% year-over-year.

CEO Satya Nadella said, "We're building Azure as the world's computer to support organizations' growing cloud needs. We're investing to bring our cloud services to more customers, announcing 7 new data center regions in Asia, Europe and Latin America and adding support for top-secret classified workloads in the United States… In education, more than 200 million students and educators worldwide rely on Microsoft education products for remote learning. And leading customers in every industry, including Amgen, AT&T, Daimler, GSK and IKEA are increasingly turning to our premium offerings for advanced security, compliance, voice and analytics capabilities. Microsoft 365 E5 revenue has grown triple digits for the past 4 quarters."

Mr. Nadella continued, "The recent SolarWinds attack are a stark reminder of how critical security is to our customers. We are focused on ensuring organizations deploy and maintain a zero-trust architecture. Our end-to-end security capabilities, inclusive of identity, security, compliance and management across all clouds and all client platforms have been key as we help customers strengthen their security posture and mitigate impact. Beyond our products, our operational security posture and threat intelligence, which analyzes 8 trillion signals each day, help customers defend themselves. Over the past 12 months, our security business revenue has surpassed $10 billion, up more than 40%. This milestone is a testament to the deep trust organizations place in us, and we will continue to invest in new capabilities across all our products and services to protect our customers. In gaming, we surpassed $5 billion in revenue for the first time in this quarter as we expand our opportunity to reach the world's 3 billion gamers wherever they play. The launch of Xbox Series X and Series S was the most successful in our history, with the most devices ever sold in a launch month."

Mr. Nadella concluded, "I'm energized by our increasing momentum and the expanding opportunity fueled by the structural change brought about by the rapid adoption of digital technology. We're investing to meet these needs in the coming decade, and I'm optimistic about what's ahead."

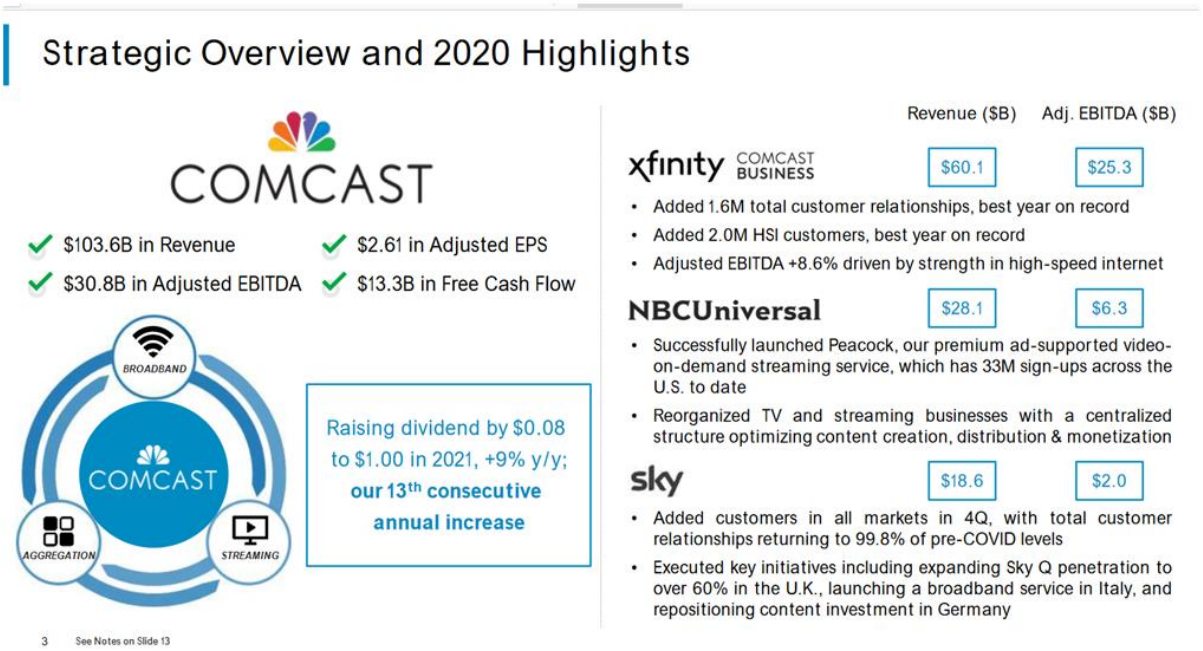
CEO Amy Hood offered a detailed outlook, "In Productivity and Business Processes, we expect revenue between $13.35 billion and $13.6 billion. In Office Commercial, revenue growth will again be driven by Office 365, with continued upsell opportunity to E5… For Intelligent Cloud, we expect revenue between $14.7 billion and $14.95 billion. In Azure, revenue will again be driven by strong growth in our consumption-based business…In More Personal Computing, we expect revenue between $12.3 billion and $12.7 billion. In Windows, overall OEM revenue growth should be in the low single digits on a strong comparable…And in gaming, we expect revenue growth of approximately 40%, driven by next-generation console sales as well as Xbox content and services revenue in the mid-20% range…To the company guidance- We expect COGS of $13.1 billion to $13.3 billion and operating expense of $11.9 billion to $12 billion. In other income and expense, interest income and expense should offset each other. We expect our Q3 tax rate to be approximately 15%, slightly lower than our full year rate of approximately 16%. And finally, for FY '21, with our strong performance in the first half of the fiscal year and

our outlook for Q3, we expect to deliver another full year of double-digit revenue and operating income growth as well as healthy operating margin expansion, even after excluding the impact of the change in accounting estimate and COVID-related savings."

Microsoft remains one of our larger holdings, a position we are comfortable with at present. We were pleased to see strong Cloud results, but more importantly, the company is seeing strong growth from many business lines. We think that Mr. Nadella's transformation of Microsoft has been tremendous for shareholders, and we think Microsoft has multiple areas of opportunity to grow revenue. Of course, the valuation is still on the high end, but MSFT is the second-largest component in the S&P 500 and Russell 3000 indexes, meaning that even at our base portfolio weights, we would look better against those indexes if Microsoft shares plunged in price. Our MSFT Target Price is now $263.

Cable and satellite firm **Comcast** (CMCSA – $49.57) reported earnings per share of $0.56, versus the $0.48 estimate, in fiscal Q4 2020. CMCSA had sales of $27.7 billion (vs. $26.8 billion est.). Shares gained more than 6% following the announcement, as net high-speed internet additions came in at 538,000 (vs. 496,000 est.) and the company's Peacock streaming service reached 33 million subscribers in the U.S. just six months after it launched. The company also boosted its quarterly dividend by 9% to $0.25.

CEO Brian Roberts said, "Looking back over the whole year. 2020 was one of the most uncertain and challenging periods that any of us can remember. But we rose to the occasion, ensuring the safety and protection of our employees, providing customers with unparalleled service and innovative products that they relied on more than ever, strengthening our investment-grade balance sheet and continuing to invest for long-term growth and success… 2021 offers a lot of promise for Comcast and hopefully for the entire world. While the first half will be more challenged than the second due to the most recent strain of COVID, we're really encouraged by the promise of a vaccine, which is the first step in putting the parts of our business that have been most impacted back on a path toward growth. This optimism is shared by our Board of Directors, which this morning announced an increase in our dividend for the 13th consecutive year. I'm also pleased that it's now our expectation that we will return to repurchasing shares in the back half of this year."



CFO Michael Cavanagh added, "Looking ahead, we would characterize 2021 as a tale of 2 halves. The first half is under pressure due to the recent increase in COVID-related restrictions to the extreme levels we experienced at the beginning of the pandemic. With the government mandating the closure of pubs and clubs as well as many retail outlets, we are experiencing weakness in hospitality and advertising, and we now expect Sky's first quarter revenue to decline slightly year-over-year. We also expect first half expenses to be elevated when compared to 2020 as higher sports rights amortization resulting from sporting events being postponed from 2020 to 2021 will be with us through the second quarter… Second, we remain focused on organic investment in our businesses to grow the long-term earnings power of the company, including our CapEx investment in broadband and parks and continued investment behind other growth initiatives where we see strong return on investments, such as Xfinity Mobile, Peacock, Flex, Sky Q and broadband in Italy."

While the company's theme parks continue to suffer from pandemic-related closures, CMCSA reported that it has managed to break even in the Parks segment. We are pleased, but not shocked given competitor streaming launches, that Comcast has exceeded expectations with its Peacock service. Uncertainty related to the Olympics and other sporting events will likely continue to weigh on CMCSA, but we think that the global vaccine rollouts will allow in-person sporting events sooner rather than later. We like CMCSA's diverse media portfolio (including NBC,

Telemundo, E!, NBC Sports Network, Sky), geographically diverse theme parks (Universal Parks & Resorts, including Universal Studios Hollywood) and investments in alternative methods of content delivery (Peacock). We also like the significant free-cash flow generation, forward P/E ratio around 17.5 and just-increased dividend yield of 2.0%. Our Target Price has been hiked to $61.

Shares of **Abbott Labs** (ABT – $123.59) jumped more than 9% last week after the medical device maker posted solid Q4 top- and bottom-line results. Adjusted EPS for the quarter came in at $1.45, versus consensus analyst estimates of $1.36, on revenue of $10.7 billion (versus forecasts of $9.9 billion). On an organic basis, Q4 revenue grew 28.4% y-o-y, led by the Diagnostics division, which grew 108.9% due to global COVID-19 test sales of $2.4 billion in the period. ABT's rapid testing platforms (BinaxNOW, Panbio, and ID NOW) contributed $1.9 billion to global COVID-19 test sales. Meanwhile, Nutrition grew 4.4% and Established Pharmaceuticals grew 3.4%, while Medical Devices declined 0.4%.

Digging into the Medical Devices numbers, sales increased 1.7% on a reported basis in the fourth quarter and decreased 0.4% on an organic basis. Strong growth in Diabetes Care, led by FreeStyle Libre, was offset by reduced cardiovascular and neuromodulation procedure volumes due to the pandemic and lower Vascular sales in China, as a result of a new national tender program in that country. Excluding Vascular sales in China, global Vascular sales decreased 10.4% on an organic basis. In Diabetes Care, strong growth in the quarter was led by FreeStyle Libre, which grew 41.3% on a reported basis and 37.1% on an organic basis. For the full year, FreeStyle Libre grew 43.1% on a reported basis and 42.6% on an organic basis.

ABT's initial outlook on 2021 EPS of at least $5.00 is much greater than investors were seemingly anticipating. "Despite challenging conditions, we achieved double-digit EPS growth, delivered ground-breaking innovation and advanced our new product pipeline in 2020," said CEO Robert B. Ford. "We exited the year with a lot of momentum and are forecasting EPS growth of more than 35% in 2021."

We continue to believe that Abbott's cash generation potential remains strong, which can be used to improve the balance sheet, return capital to shareholders and invest in the business. We also like that the company continues to invest heavily in R&D as it focuses on wringing new products out of previous acquisitions. Abbott's testing franchise provides some EPS protection and an ability to accelerate investments. The company's pipeline (Mitral, Tricuspid, Amulet, CardioMEMS, Libre 3) suggests the potential for a solid growth outlook for 2021 and 2022. All that said, we continue to keep a close eye on ABT shares as the valuation isn't exactly cheap (though with the company's 2021 outlook, the forward P/E is now *only* 24.5 times), though we are comfortable continuing to hold our remaining shares of this high-quality name for the time being. Our Target Price has been hiked to $128.

Shares of **Celanese** (CE – $122.15) fell more than 7% last week despite the specialty chemical producer delivering Q4 top- and bottom-line results that were well above consensus analyst estimates. Celanese announced adjusted EPS of $2.09 (versus $1.68 est.), while revenue was $1.59 billion (versus $1.39 billion). Q4 results show that CE's businesses continue to recover from the COVID-19-related global economic slowdown. Operating profit roughly tripled y-o-y

during Q4, led by the Acetyl Chain segment, which is responsible for about 50% of the company's profits and which saw a 19% increase in volumes. Given the commoditized nature of these operations, capacity utilization is extremely important to profitability, therefore increases and spikes in volumes can have material impacts on profits.

CE CEO Lori Ryerkerk said, "This past year presented enormous challenges across all of our businesses in every region of the world. The dedication of our employees and the resiliency of our businesses were evident in our 2020 financial performance. I thank our teams for their actions throughout this year to strengthen Celanese despite the headwinds of COVID-19, including driving sustainable productivity and supply chain initiatives, accelerating our turnaround activity, integrating the Elotex acquisition, and taking strategic action on our Engineered Materials joint ventures. As a result of these actions and many others, we are well-positioned to drive strong earnings growth in 2021."

"We were encouraged by the broad continuation in recovery across the fourth quarter and the fact that most end markets have reached pre-COVID demand levels," continued Ms. Ryerkerk. "While the pandemic remains a challenge to how we work and we closely monitor the current resurgence in the US and Europe, we successfully ended 2020 with strong performance and entered 2021 with momentum. At this point, we expect current demand conditions, including favorable Acetyl Chain industry dynamics, will persist through the first quarter and anticipate first quarter 2021 adjusted earnings of $2.50 to $2.75 per share. Looking to the full year, we expect that contributions from our controllable actions including productivity, turnaround, and share repurchases along with fundamental demand recovery to date will position us to deliver adjusted earnings of approximately $9.50 to $10.00 per share in 2021. With our uniquely positioned businesses and significant firepower to target high-return opportunities, Celanese remains exceptionally well-positioned to drive sustained value creation for shareholders."

The company has typically enjoyed a cost advantage in many of its markets and has been able to push through regular price increases. While not as inexpensive as a quarter or two ago, the stock still trades materially below the market multiple even as the firm generates tons of cash and has historically produced attractive returns on equity and invested capital. We also appreciate CE's exposure to electric vehicles as well as potential for wins in electronics devices like smartphones and tablets through its Engineered Materials segment. The dividend yield is 2.2%. Our Target Price for CE has been increased to $158.

After a difficult first half of 2020, **Synchrony Financial** (SYF – $33.65) returned to growth on a year-over-year basis in Q4. The consumer financial services concern blew consensus analyst estimates out of the water earning $1.24 per share (vs. the $0.91 est.) even as loan receivables and deposits were lower by 6% and 4%, respectively. Net charge-offs were 3.16% in 2020, an improvement over the 5.15% in the prior year despite the turbulence introduced by COVID-19. The current allowance for credit losses represents 12.5% of total loans and while the firm is still utilizing a legacy accounting system, it estimates its Common Equity Tier 1 ratio was 15.9% at the end of December.

Outgoing CEO Margaret Keane commented, "Last year brought challenges the likes of which we have never before experienced, and I am proud of how we came together as an organization to

help our employees, partners, customers, and communities. We never lost sight of the necessity to build for the future, one in which the acceleration of digital adoption is profound. We quickly deployed digital assets to help our partners navigate this new environment and we continue to make investments for the future. In 2020, we renewed 41 key relationships, won 25 new deals, and launched promising new programs with Verizon and Venmo. We also took a deep look at our organization to decisively reduce costs to appropriately align the expenses of our business while maintaining investments in our long-term strategy."

Despite the positive results, shares slid nearly 10% on the week even as they still have nearly tripled times the low in March last year. We remain quite constructive on partnerships with PayPal, Amazon and newer programs with Venmo and Verizon, as SYF continues to improve its long-term potential to benefit from growing digital shopping. SYF will need to continue to enhance its technological capabilities as it moves forward, but its financial footing and credit quality underpin a $1.6 billion share repurchase program approved for 2021. The company declared its regular $0.22 per share quarterly dividend and the yield is 2.6%. Our Target Price is now $49.

Norfolk Southern (NSC – $236.62) posted top- and bottom-line results on Wednesday that beat analyst expectations. The east coast railroad operator earned $2.64 per share (vs. 2.47 est.) as a tight truck market contributed to higher conversions to railroading and a strong intermodal segment (5% container growth). The firm's operating ratio was a record 61.8% as operating expenses declined 8%. Revenue did decline by 4% year-over-year, however, to $2.6 billion amid weakness in the energy segment (coal, crude and natural gas) although it was a 2.4% improvement compared to the prior quarter and 23% better than the Q2 figure generated at the height of the pandemic.

CEO James A. Squires commented, "During a year of unprecedented market disruption and uncertainty, the Norfolk Southern team delivered record productivity levels while providing safe and reliable freight solutions for our customers. As we take stock of what we achieved in 2020 while managing both the pandemic and energy market challenges, including the successful idling of four additional hump operations while driving productivity to record levels, we see much more opportunity ahead. We have set the stage to drive further efficiency and profitable growth in 2021 through our precision scheduled railroading operating plan, which will deliver long-term value for both our shareholders and customers."

Like most economically sensitive businesses in 2020, NSC was not without headwinds from the pandemic. But the outlook for the near-term appears very strong as competing truckload capacity remains very tight. And even though energy is still a point of weakness, we note that coal represents less than 11% of total revenue, down from 28% a decade ago. We think NSC has the most to gain from the continued implementation of Precision Scheduled Railroading and the stock trades at a forward multiple just below that of the market at 21 times estimated earnings per share. The dividend yield is 1.7% and our Target Price is now $266.

Shares of **Whirlpool** (WHR – $185.09) had gained as much as 8% last week before sliding to close down 7%, despite the company releasing strong financial results that topped analyst expectations. The appliance maker earned $6.64 in Q4, pushing the full-year figure to $18.55.

Strong demand in North America during Q4 drove 4% revenue growth while robust performance in Brazil contributed to 28% organic growth in Latin America.

CEO Marc Bitzer elaborated on the year, "In 2020, we faced unprecedented challenges due to the ongoing COVID-19 pandemic, yet we remain firm in our commitment to all of our stakeholders. The health and well-being of our employees was and remains our top priority. We increased safety measures at all manufacturing plants and provided additional resources to care for families and those who fell ill. We established business continuity plans to ensure our consumers have received our products to improve life at home with their families. And we continue to support our global communities by procuring medical supplies, making donations and engineering critical equipment for frontline workers."

Mr. Bitzer continued, "Despite significant macroeconomic uncertainty, we strengthened our balance sheet and drove significant shareholder value. We reduced our gross debt leverage to 2.3x, making progress towards our long-term target of 2x. We delivered a return on invested capital of approximately 11%, representing the fourth consecutive year of improvement as we realize the benefits of continued EBIT margin expansion at an optimized asset base in our Europe region. Lastly, we returned strong levels of cash to shareholders through share repurchases and increased our dividends for eighth consecutive year."

We continue to believe there is more potential for WHR as the U.S. housing market is booming. And, consistent with the position from our *Where to Invest in 2021* Outlook, we expect folks to continue to spend a lot more time at home in Whirlpool's global markets, where replacement and upgrades of more efficient and capable appliances represent a very favorable backdrop. Management expects core earnings between $19.00 and $20.00 for all of 2021 (which would represent 5.5% growth over 2020 for the mid-point), and well-covers a dividend that has been increased, with the yield now 2.7%. Our Target Price has been raised to $252.

Shares of packaging producer **WestRock** (WRK – $41.43) slid 11% last week as the release of fiscal Q1 financial results was overshadowed by the announcement of a ransomware attack impacting certain operational and information technology systems. In the quarter, WRK earned $0.61 per share (versus the $0.54 consensus expectation) on $4.4 billion of revenue that was roughly equivalent to the prior year quarter. Lower paper volumes and previously published pricing declines were marginally offset by strong packaging shipments, contributing to a 6.9% gross profit decline year-over-year. To lower production costs, sites in Florence, SC and Tres Barras, Brazil are under renovation to incorporate state of the art machinery three times as productive as existing equipment.

In regard to the cyber attack, management states that most locations continue to function with some using manual methods for order processing and shipment. There is also currently no evidence that customer or workforce data has been compromised. Despite the recent price weakness, shares are up 6.8% on a total return basis over the past year.

CEO Steve Voorhees commented, "During the first fiscal quarter, the WestRock team delivered solid financial results and generated strong cash flow resulting in debt and leverage reduction, with record box shipments and growth in key end markets. We continue to work around the

clock to restore normal operations from the ransomware attack as quickly as possible, and to safely produce the paper and packaging needed by our customers and our communities. As we look to the future, we remain confident in our strategy and our ability to generate strong cash flow and partner with our customers to meet their growing needs for sustainable, fiber-based packaging solutions."

The pandemic certainly presented a tough hand for WRK, but we think ecommerce trends that were in motion prior to the pandemic and have since accelerated should benefit the firm. We appreciate that management appears eager to reduce leverage in the short-to-medium term with price increases around the corner. Shares now trade for 12.0 and 10.1 times 2021 and 2022 respective earnings estimates. Our Target Price presently resides at $63 and the dividend yield is 1.9%.

Heavy equipment manufacturer **Caterpillar** (CAT – $182.84) released fiscal Q4 and full-year financial results last week. The $2.12 of earnings per share in the quarter thrashed the $1.45 analysts had expected while revenue was in-line with projections. Despite the bottom-line beat, earnings were down some 41% in 2020 as the pandemic left dealers with excess inventory throughout much of the year, and with low user demand in oil, gas and resource end markets. Operating margins have held up nicely (12.3% in Q4), however, and management expects a seasonal increase in dealer inventories in Q1 ahead of the selling season.

CEO Jim Umpleby stated, "We said at the start of the pandemic, it would be challenging to achieve the operating margin target we communicated during our 2019 Investor Day due to the impact of COVID-19 on our operations and supply chain, as well as our intent to continue investing in new products and services to drive long-term profitable growth. So we're pleased that our final operating margin for 2020 was within our targeted range. We finished 2020 with sales and revenues of $41.7 billion and an adjusted operating profit margin of 11.8%."

Mr. Umpleby went on to comment on the state of emerging markets, "We expect continued recovery in the rest of Asia Pacific. The current shutdown in some regions of EAME may constrain construction activity in Europe in the short term. However, we expect improved market conditions due to favorable expansionary policies as well as benefits from higher commodity prices in Africa, the Middle East and Eurasia. In Latin America, we see Brazil's construction sector supportive of machine demand while weakness outside Brazil is expected to continue at least in the short term."

Notwithstanding obstacles from the past year, shares have rallied 39% since last January. The firm continues to have a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. While operational hurdles remain, we expect Caterpillar to be a major beneficiary of any additional fiscal stimulus spending that may occur in the coming years. A shift toward leaner operations should allow CAT to be less cyclical through changing environments, enabling it to persist in returning capital via share buybacks and dividend increases throughout the traditional business cycle. Shares yield 2.3%, while the company continues to deliver strong operating cash flow. Our Target Price for CAT is now $208.

Global defense contractor and security company **Lockheed Martin** (LMT – $321.82) reported Q4 financial results that were near analyst estimates. The company earned $6.38 per share on $17.0 billion of revenue (year-over-year growth of 11% and 9%, respectively). Shares dipped roughly 4% on the news.

The election now behind us and some political and budget uncertainty off the table for the moment, CEO James Taiclet said, "The fiscal year 2021 National Defense Authorization Act has been passed into legislation, and the Department of Defense appropriations were approved as part of the FY '21 omnibus funding bill. Both of these congressional actions adhere to the Bipartisan Budget Act of 2019, which established spending levels for discretionary defense budgets for the total fiscal year 2021 national defense spending target of approximately $740 billion. Also, Congress passed a $900 billion COVID relief package, which extended Section 3610 of the CARES Act to March 31, providing federal agencies the authority to reimburse contractors who are temporarily unable to work due to facility closures or other restrictions. Lockheed Martin programs were well supported in the FY '21 appropriations bill with Congress adding funding of over $1.7 billion for 17 additional F-35 aircraft and other development and integration activities for the program, adding nearly $900 million for 9 additional C-130Js plus support work for that airplane; and over $400 million for Sikorsky programs, including

additional CH-53K and Black Hawk helicopters; and also the initiation of an 8 THAAD battery for the U.S. Army."

CFO Ken Possenriede added, "Our outlook for sales ranges from $67.1 billion to $68.5 billion. The midpoint of this range represents nearly a 4% increase over 2020, an improvement from our October estimate even after incorporating the impact of the U.K. MOD's decision to in-source contract support for the atomic weapons establishment. The $700 million sales reduction for this change is reflected in our outlook for the Space business. Were it not for this decision, our estimated sales increase would have been approximately 5%, which is greater than the estimated 3% sales growth we discussed in the last earnings call. We have incorporated the known COVID impacts into our 2021 financial outlook. We will continue to work with our U.S. government customers to monitor COVID risk to our operations in the supply chain, and we will continue exploring potential paths to recovery of cost impacts where appropriate to minimize future impacts. The range for segment operating profit is estimated to be approximately $7.4 billion to $7.5 billion. Our estimated range for 2021 earnings per share is between $26 to $26.30. The midpoint of this range represents approximately an 8% increase over 2020 results. Cash from operations is now projected to meet or exceed $8.3 billion."

The Aeronautics segment continues to stand out, and represents 40% of total revenue, driven in large part by F-35 revenue. The company slightly grew its record backlog to $147 billion, which gives us continued confidence in its future revenue-generating ability. COVID-19 has added unprecedented challenges and uncertainty, which management thinks will begin to recede later this year as the vaccines are rolled out globally. LMT continues to benefit from the production ramp of the F-35 program, while international sales, and additional contract wins in hypersonics, weapons systems, satellites and classified content combine to drive robust cash flow which should support continued share repurchases and dividends. LMT shares sport a dividend yield of 3.2% and our Target Price is $502.

Electronic components maker **Corning** (GLW – $35.87) earned $0.52 per share in fiscal Q4 2020 (vs. $0.49 est.). GLW had revenue of $3.33 billion, versus the $3.17 billion estimate. Corning benefited from strong demand in the Specialty Materials and Environmental Technologies businesses, while softness in the smartphone market dragged on results in Mobile Consumer Electronics.

CEO Wendell Weeks commented, "Looking ahead, Corning's long-term growth drivers and content opportunities are strong in each of our markets. And we believe some secular trends could accelerate as consumer lifestyles continue to change in the aftermath of the health crisis. And that leads to my third observation. We're living through the kind of moment that tends to bring true character to light. At Corning, our values are evident in our actions. We've unleashed our capabilities to help combat the virus. And we're proud to be creating life-changing technologies that contribute to keeping people safe and help society address the challenges of the pandemic. We also recognize in these unprecedented times that we have the opportunity to share resources and leadership on a range of important issues. We've launched racial and social quality programs, and our unity campaign support vital human services and emergency relief in our communities around the world."

Mr. Weeks concluded, “On all fronts, Corning is executing well. We’re delivering outstanding results and making important progress across our strategic priorities. I am confident that we are entering the year with solid momentum and we expect to grow in 2021. Our more Corning strategy will continue to drive outperformance across the diverse industries that we serve. We’re not just counting on consumers buying more cars, TVs or smartphones to grow. And I’m excited about how we’re bringing our capabilities to bear in optical and life sciences as operators expand their networks and we continue to support vital drug and vaccine development.”

Historically, GLW has been a big repurchaser of its own shares and the buyback program is suspended at the moment. Management expects that repurchases will continue sometime in 2021, while the company’s $0.22 quarterly dividend was never paused on account of the pandemic. Corning’s business line diversification is valuable, we think, but has contributed to the company’s lumpy earnings over the past few years. While it’s probably not realistic to expect the company set records in all businesses at the same time, we think the pandemic recovery will drive earnings for broad parts of GLW’s operations. Even though they are not as cheap as they once were, GLW trades for 18x forward earnings with a 2.7% yield. Ever-optimistic, analysts expect GLW’s EPS to grow from $1.39 in 2020 to more $2.40 by 2023. Our Target Price has been elevated to $46.