Market Commentary Monday, February 8, 2021

February 8, 2021

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – One Buy for Each of Four Accounts
"Meme" Stocks – GameStop Craters But Market Soars
Week in Review – Best Five Days Since November
Econ Update – Lackluster Jobs Data; Other Stats More Upbeat
Rising Interest Rates – Bad for…Bonds
Sentiment – Little Enthusiasm for Stocks; Money Keeps Pouring Into Bonds
Dividends – Payouts Rise Over Time
Patience – The Longer the Hold the More the Chance of Equity Market Success
Stock News – Updates on GOOG, KSS, IP, SNA, MDC, TKR, PFE, GILD, TPR, ETN, MET, CMI & QCOM

Market Review

A bit of housekeeping before this week's missive. As discussed in the February edition of *The Prudent Speculator*, we bought the following on Thursday morning, February 4: 175 **Alexandria Real Estate** (ARE – $171.70) at $170.5914 for TPS Portfolio and 145 **Verizon Communications** (VZ – $55.32) at $55.1158 for Buckingham Portfolio. In our hypothetical accounts, also on Thursday, we added 19 shares of **Lam Research** (LRCX – at $509.76) at $504.50 to Millennium Portfolio and 113 **3M** (MMM – $179.01) at $175.79 to PruFolio.

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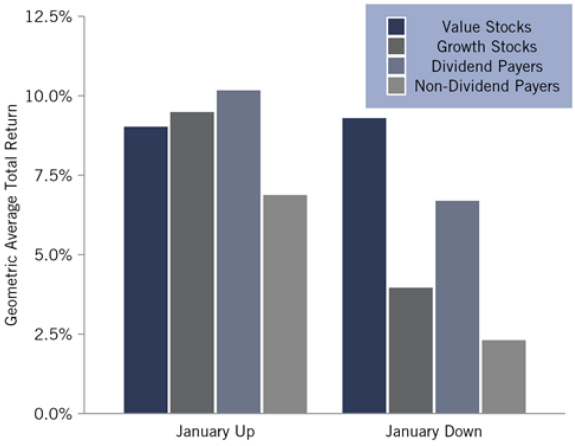
Certainly we respect that stock prices could have gone the other way, given that the final week of January pushed the S&P 500 into the red for the year,…

THE PRUDENT SPECULATOR

AS GOES JANUARY?



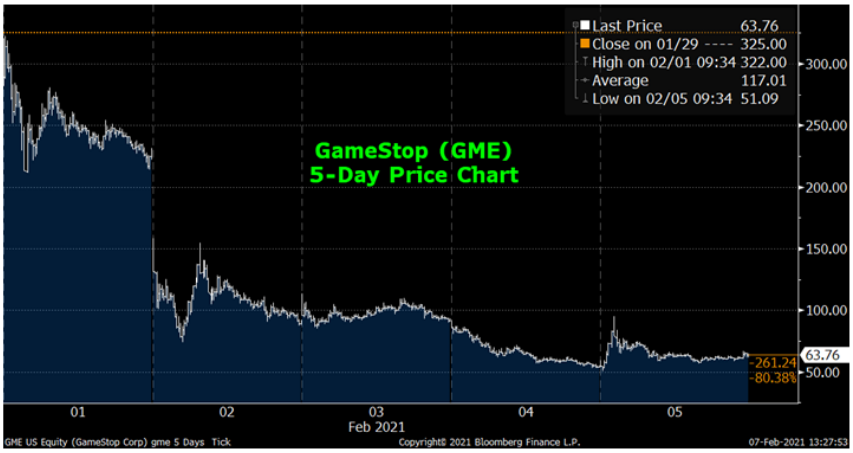
From 12.31.27 through 12.31.20. Geometric average of 11-month (February through December) total returns. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

While the average stock in the Russell 3000 index was very much in the green for January, the capitalization weighted S&P 500 ended the month down, prompting some market pundits to fret about the January Barometer. As January goes so goes the year is what some believe, even as the evidence suggests that stocks have performed fine either way, with Value actually doing better over the balance of the year when January is in the red. Of course, the huge gains over the first week of February have the final 11 months of the year off to a nice start.

…and the so-called “meme” stocks, led by struggling retailer GameStop, came crashing back to earth,…

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	$55.62	-6.8	29.6	389.5	$7.30	7.6	$5.59	9.9	$6.54	8.5
FL	Foot Locker	$48.98	11.8	21.5	175.7	$2.56	19.1	$4.48	10.9	$4.88	10.0
JWN	Nordstrom	$34.06	-3.9	9.1	118.2	-$3.96	-8.6	$1.29	26.4	$1.97	17.3
KSS	Kohl's	$49.53	12.4	21.7	278.4	-$2.20	-22.5	$2.67	18.6	$3.31	15.0
LOW	Lowe's Cos	$175.03	4.9	9.4	162.5	$8.76	20.0	$9.34	18.7	$10.75	16.3
TGT	Target	$188.86	4.2	7.0	98.2	$9.10	20.8	$8.83	21.4	$9.63	19.6
TPR	Tapestry	$37.55	18.8	20.8	254.9	$2.54	14.8	$2.81	13.4	$3.09	12.2
GME	GameStop	$63.77	-80.4	238.5	1573.8	-$2.10	-30.4	-$0.21	-303.7	$1.35	47.2

As of 2.5.21. Source: Kovitz using data from Bloomberg

Stunning was the 80% crash GameStop (GME) last week, even as the viability of brick-and-mortar video-game retailing is in question, but we generally have no complaints about how our far-more-reasonably-priced (and we think well-positioned for the long term) retailers have been performing.

…but the week just ended,…

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WHAT A DIFFERENCE A WEEK MAKES…PURE VALUE LEADS IN '21

Illustrating again why we say time in the market trumps market timing, stocks followed up the worst week since October as January ended with an even better week (the best since November) as February began.

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
-0.74	-1.61	1.52	3.54	10.64	7.01	13.63	12.83	21.22	Bloomberg Barclays Global-Aggregate Bond
-0.39	-1.11	0.00	-0.49	5.22	4.84	14.57	17.39	20.90	Bloomberg Barclays US Aggregate Bond
3.90	1.87	18.14	22.50	70.54	8.79	28.47	37.17	116.65	Dow Jones Industrial Average
4.68	3.90	21.88	27.87	75.33	10.21	27.80	29.83	83.36	New York Stock Exchange Composite
5.33	4.93	21.80	27.13	95.45	37.19	77.34	92.20	197.31	Russell 3000 Growth
4.87	**4.33**	**23.57**	**30.92**	**72.72**	**6.55**	**24.35**	**27.02**	**79.68**	**Russell 3000 Value**
5.11	4.64	22.65	28.94	85.04	22.44	50.61	58.69	134.86	Russell 3000
4.72	3.87	23.80	33.23	87.20	15.23	36.22	42.27	107.02	S&P 500 Equal Weighted
4.67	3.61	19.37	24.43	76.33	18.70	47.48	55.47	128.30	S&P 500
4.80	4.27	19.05	24.12	86.32	31.57	67.37	81.31	173.69	S&P 500 Growth
4.52	**2.87**	**20.18**	**25.21**	**63.42**	**3.63**	**25.33**	**28.19**	**81.33**	**S&P 500 Value**
5.33	4.74	22.86	28.99	99.44	30.06	58.19	64.77	154.05	S&P 500 Pure Growth
5.13	**7.72**	**33.32**	**48.18**	**99.05**	**-0.17**	**10.33**	**10.74**	**66.75**	**S&P 500 Pure Value**

As of 02.05.21. Source Kovitz using data from Bloomberg

…illustrates why we always say that time in the market trumps market timing. Indeed, one of the best weeks in history,…

THE PRUDENT SPECULATOR

HUGE WEEKLY RALLY IN THE S&P 500

Rare are weekly moves of more than 4% in the S&P 500, but that market gauge soared 4.65% on a price basis over the five-days ended February 5, 2021, the 126th best showing since 1928.

Up >4.64%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	0	0	2	1	0	5	1	4	12
Years Ending in 1		8	0	0	0	1	1	3	3	5	1	21
Years Ending in 2		13	1	0	1	0	4	0	3	0		22
Years Ending in 3		12	0	0	1	0	0	0	1	0		14
Years Ending in 4		5	0	0	0	4	1	0	0	0		10
Years Ending in 5		2	0	0	0	2	0	0	0	0		4
Years Ending in 6		1	1	0	2	0	1	0	0	0		5
Years Ending in 7		1	0	0	0	1	3	1	0	0		6
Years Ending in 8	1	10	1	0	0	0	1	1	3	1		18
Years Ending in 9	4	2	0	0	0	0	0	2	6	0		14
Totals	5	56	4	0	4	10	12	7	21	7	5	126

From 1.13.28 through 02.05.21. Weeks of index price increases of more than 4.64%. SOURCE: Kovitz using data from Bloomberg

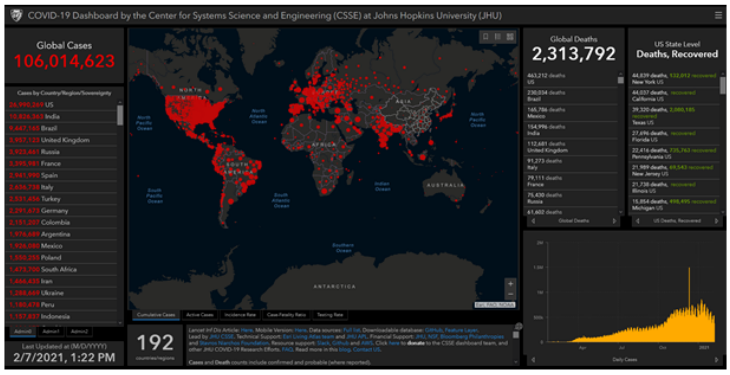
Down >=4.64%

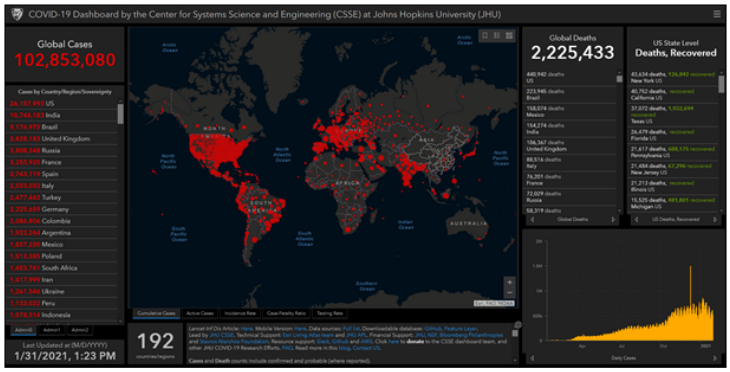
	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		9	3	1	0	2	1	1	2	2	5	21
Years Ending in 1		11	2	0	0	0	0	0	2	4	0	19
Years Ending in 2		13	1	0	3	0	0	0	3	0		20
Years Ending in 3		11	1	0	0	0	0	0	0	0		12
Years Ending in 4		3	0	0	0	6	0	0	0	0		9
Years Ending in 5		0	0	0	0	1	0	0	0	1		2
Years Ending in 6		1	2	0	0	0	1	0	0	1		5
Years Ending in 7		7	0	0	0	0	4	0	1	0		12
Years Ending in 8	1	9	1	0	0	1	1	3	6	3		25
Years Ending in 9	7	5	0	0	0	1	1	1	4	0		19
Totals	8	69	10	1	3	11	8	5	18	11	5	144

From 1.13.28 through 02.05.21. Weeks of index price decreases of more than 4.64%. SOURCE: Kovitz using data from Bloomberg

…occurred without warning and in the middle of a pandemic,…

COVID-19 GLOBAL CASE AND MORTALITY GROWTH RATES SLOWING





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

While the numbers were worse in recent weeks as access to testing is higher, the weather has turned colder and folks had gathered for the Holidays, there was a sizable improvement in the weekly COVID-19 case count as the increase was "only" 3.1 million and the rise in weekly fatalities dropped from nearly 100,000 to less than 89,000. Still nothing to cheer about, of course, as the U.S. is up to more than 463,000 fatalities, and new more deadly virus strains are making their way around the world, but hospitalizations have declined considerably, while vaccinations and "herd" immunity have helped the cause. The "confirmed case" mortality rate inched up to 2.18%.

…with stocks managing to move higher, even as the latest update on the jobs picture was hardly rosy,…

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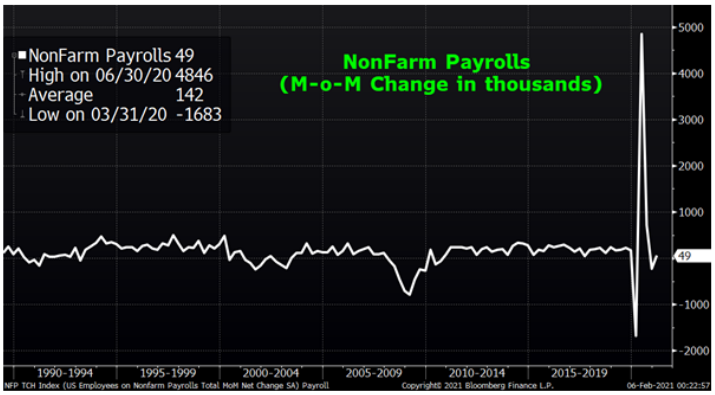
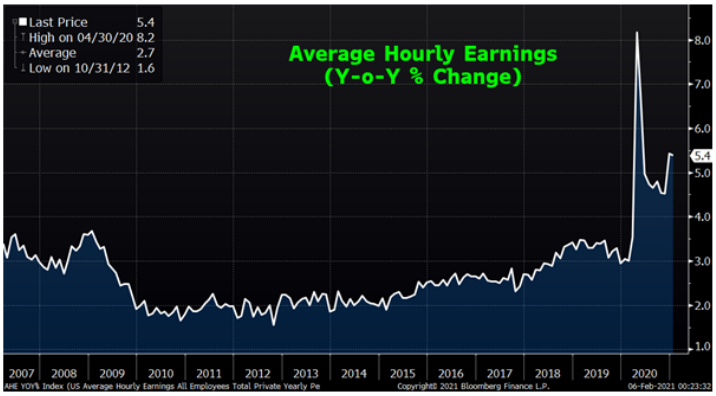
IN-LINE LABOR REPORT



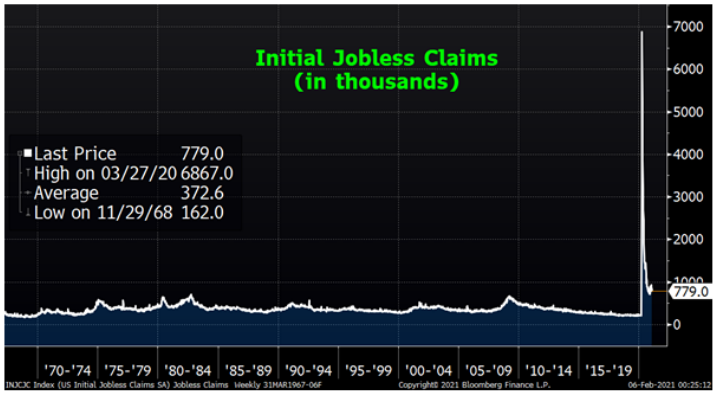


Economists were looking for a gain of 50,000 payrolls, so the increase of 49,000 in January, though well below the historical average of 142,000, was in line with expectations, with leisure and hospitality still the primary culprit. There remain millions out of work but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons stayed high, jumping 5.4% on a year-over-year basis.

…with far too many people in the unemployment line.

THE PRUDENT SPECULATOR

LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW IMPROVEMENT



While the drop was more reflective of folks giving up on the job search, the jobless rate for January dipped to 6.3%, continuing its improvement from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits in the latest week declined to 779,000, better than projected, and continuing jobless claims fell to 4.59 million, a new pandemic low. Of course, a massive 77.3 million unemployment claims have been filed since March 20.

Of course, other economic stats were trending in the right direction,…

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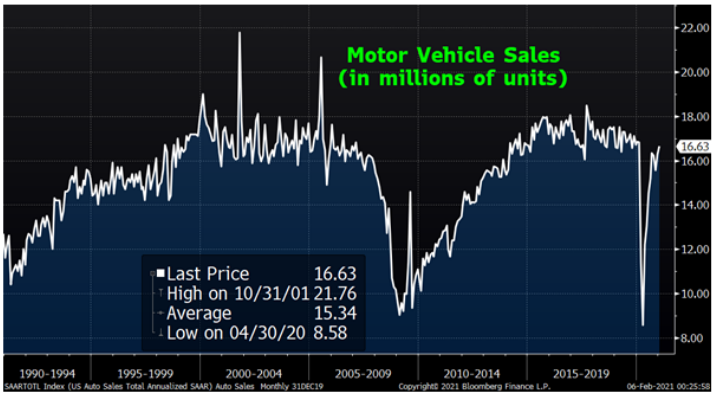
FAVORABLE ECONOMIC NUMBERS



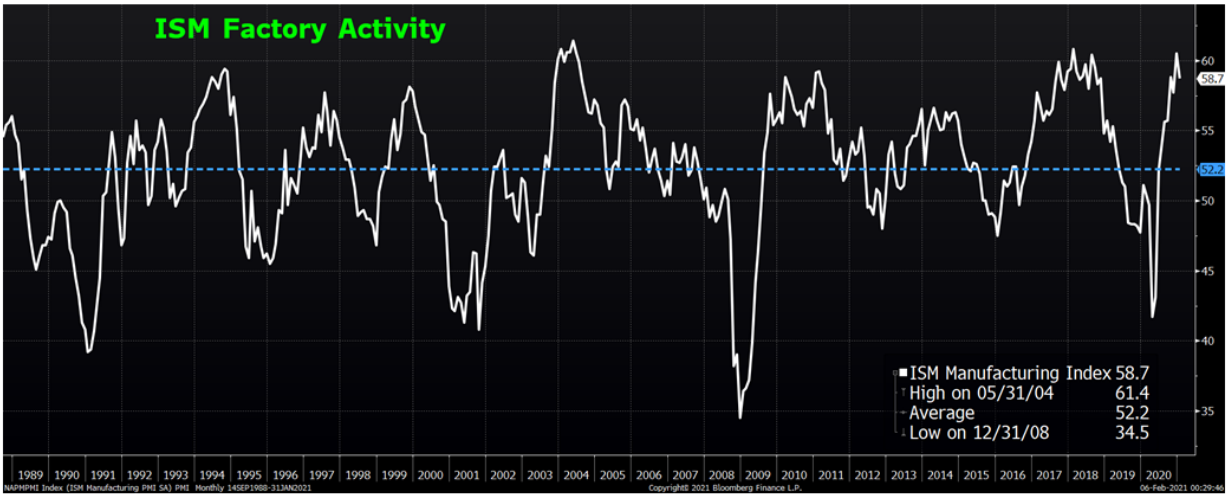
Continuing the bounce in the manufacturing sector after coronavirus-related shutdowns, factory orders for December rose for an eighth straight month, climbing by a stronger-than-expected 1.1%. Meanwhile, sales of cars and trucks climbed in January, with the seasonally adjusted annualized rate for light vehicles sold estimated at 16.63 million units, according to Wards Automotive Group.

…while the latest forward-looking data from purchasing managers on the health of the manufacturing sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING VERY HEALTHY: 4.4% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in at a weaker-than-expected 58.7 in January, still an elevated reading as it was far above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 4.4% increase in real gross domestic product (GDP) on an annualized basis."



…and the services sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING CLIMBS: 3.4% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector rose to a stronger-than-expected 58.7 in January, up from 57.2 in December. The figure was well above average and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 3.4% increase in real gross domestic product (GDP) on an annualized basis."

…were supportive of the Federal Reserve's projection for real U.S. GDP growth to exceed 4% in 2021.

FED: BIG REBOUND IN '21 AND NEAR-ZERO INTEREST RATES THROUGH '23

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

Equally impressive, given that many have the erroneous view that rising interest rates are bad for equity prices,…

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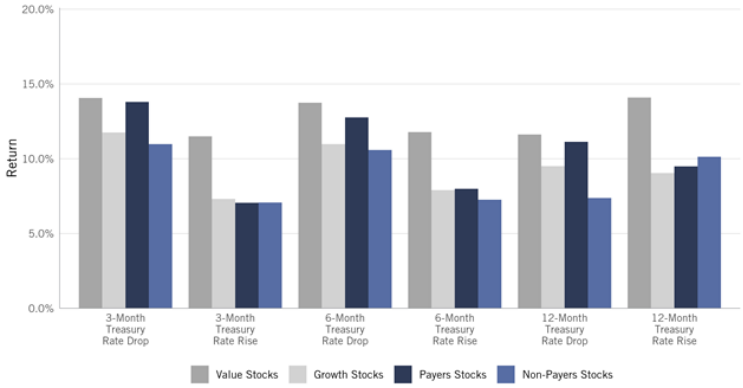
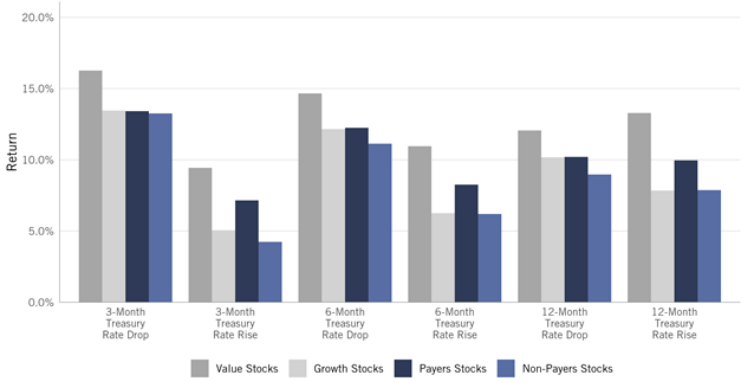
10-YEAR TREASURY Δ AND VALUE/GROWTH & DIV/NO DIVS



From 06.30.27 through 09.30.20. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 06.30.27 through 09.30.20. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

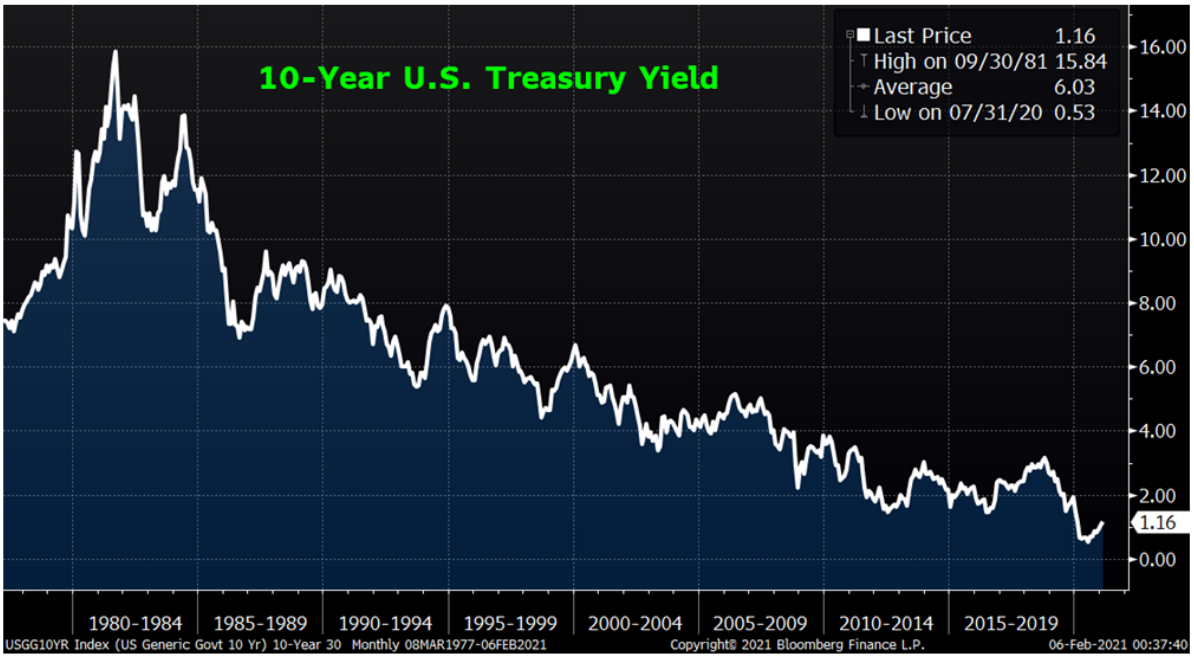
Many think rising interest rates will prove to be a big headwind for equities, but nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the yield on the 10-Year U.S. Treasury over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

…stocks turned in a terrific week…and have rallied mightily for some time now, even as the yield on the 10-Year U.S. Treasury resumed its climb that has seen the rate jump from 0.53% six months ago to 1.16% today.

THE PRUDENT SPECULATOR

INTEREST RATES CAN MOVE IN BOTH DIRECTIONS

While the trend in the 10-Year U.S. Treasury yield has been down for most of the past four decades, rates have more than doubled over the last six month or so, even as a 1.16% yield is still extraordinarily low.



Higher interest rates, naturally, mean falling bond prices, and many ETF investors have found out the hard way that fixed income investing is not without risk,…

No doubt, folks have in recent years made plenty of money on the iShares 20+ Year U.S. Treasury ETF (TLT), but fixed income investors over the last six months have suffered double-digit percentage losses.

…yet money continues to pour into bond mutual and exchange traded funds,…

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BONDS REMAIN STUNNINGLY POPULAR

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	1/27/2021	1/20/2021	1/13/2021	1/6/2021	12/29/2020
Total Equity	-6,866	2,521	-10,285	-13,850	-2,037
Domestic	-5,477	-5,922	-11,020	-11,492	-4,075
World	-1,388	8,443	735	-2,358	2,038
Hybrid	-753	-612	-693	-1,653	932
Total Bond	23,099	22,746	23,090	23,811	18,377
Taxable	18,956	18,917	19,053	20,631	14,895
Municipal	4,142	3,829	4,037	3,179	3,482
Commodities	-40	990	-615	1,326	349
Total	15,440	25,645	11,498	9,634	17,621

Source: Investment Company Institute

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.

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	63,920
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332	Nov-20	41,141	58,856
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	Dec-20	-34,053	76,178
									Totals:	-788,047	1,562,729

…and trillions of dollars somehow thinks that negative yielding debt is a good idea.

THE PRUDENT SPECULATOR

NEGATIVE YIELDING GOVERNMENT BONDS

Incredibly, investors around the world continue to love government debt, despite recent losses on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.

While we think the evidence is extraordinarily compelling that rising interest rates are bad, on average, for bonds…and not much of a problem for equities,…

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.6%	11.1%	10.2%	13.8%	1.1%	-0.8%	2.2%	3.6%
Geometric Average	11.5%	8.1%	8.1%	8.7%	1.0%	-0.9%	2.1%	3.5%
Median	16.3%	12.7%	14.1%	11.2%	1.5%	0.0%	1.8%	3.3%
Max	116.2%	84.0%	66.0%	81.8%	14.2%	9.1%	9.6%	13.8%
Min	-58.2%	-50.2%	-52.2%	-58.8%	-8.1%	-14.7%	-5.2%	0.0%
Count	46	46	46	46	46	46	46	46

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2019.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	16.0%	11.6%	12.9%	11.7%	11.6%	12.6%	8.2%	2.9%
Geometric Average	13.3%	9.6%	11.4%	7.7%	11.4%	12.4%	8.1%	2.9%
Median	18.3%	14.2%	14.0%	15.4%	10.5%	10.3%	7.9%	2.3%
Max	56.3%	44.2%	44.4%	68.9%	36.8%	34.9%	26.1%	10.1%
Min	-51.5%	-42.3%	-39.9%	-56.3%	2.7%	2.8%	1.4%	0.0%
Count	44	44	44	44	44	44	44	44

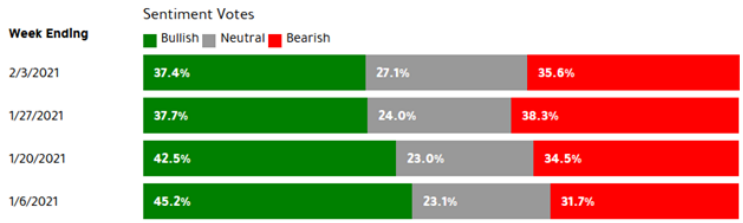
Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2019.

…investors still are showing little enthusiasm toward stocks on the whole,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULL-BEAR SPREAD NOT VERY OPTIMISTIC

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



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	7.8	874	0.27%	0.23%	1.27%	1.14%	3.70%	3.30%	6.84%	6.09%
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 1747 Data Points										
1	-54.0	-15.1	175	0.57%	0.50%	2.20%	1.95%	5.88%	5.31%	10.26%	9.01%
2	-15.0	-7.5	175	0.34%	0.31%	0.97%	0.84%	3.98%	3.62%	6.78%	6.02%
3	-7.4	-1.6	174	0.32%	0.28%	1.55%	1.45%	3.33%	2.94%	6.96%	6.32%
4	-1.4	3.0	186	0.09%	0.06%	1.05%	0.96%	2.87%	2.51%	6.02%	5.52%
5	3.0	7.8	164	0.04%	0.02%	0.57%	0.46%	2.40%	2.14%	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%	0.76%	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 2.4.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

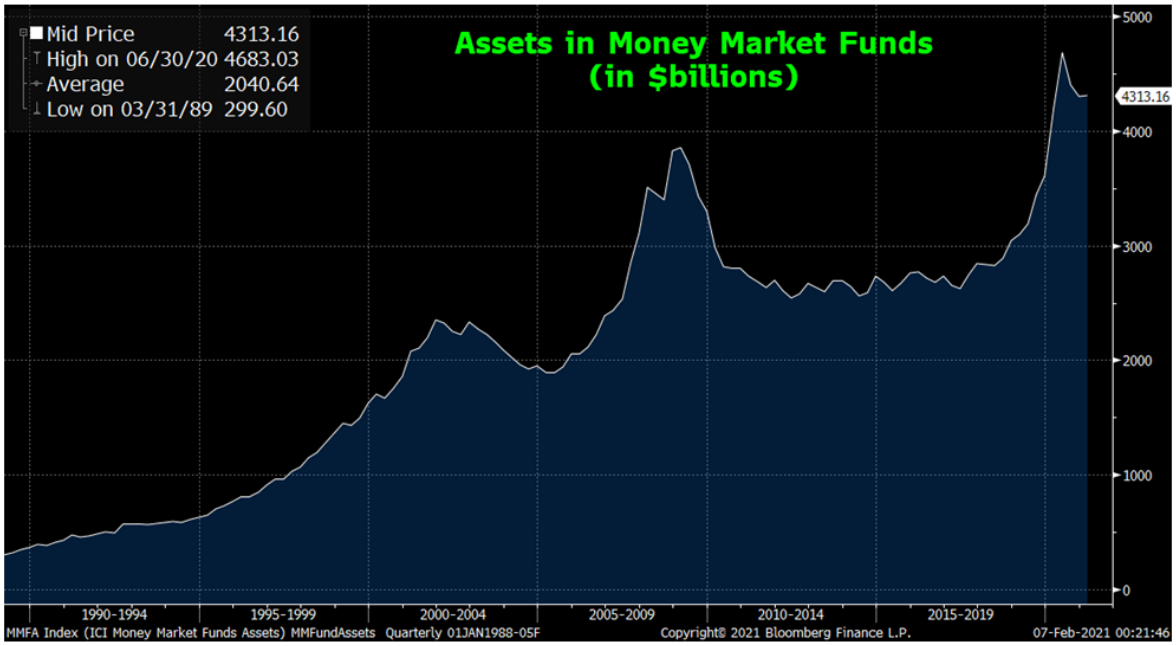
Despite the big rebound in stocks last week, folks on Main Street became less optimistic, as the latest AAII Sentiment Survey saw the number of Bulls inch lower to 37.4%, 0.6 points below normal, while the tally of Bulls came in at 35.6%, 4.1 points above average.

…and more than $4.3 trillion remains sleeping in money market funds that offer yields not much better than 0.01%, whereby cash will double in 6,932 years.

THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have never been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.



We respect that equities are a volatile asset class and the major market averages skidded more than 3% the week before last, but we think those that share our long-term time horizon should take comfort in the fact that while fixed income coupons are usually fixed, dividend payments on stocks generally have risen over time,…

THE PRUDENT SPECULATOR

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but history shows that Corporate America has a precedent of raising payouts. Per share dividends for the S&P 500 actually inched up in 2020, while in the latest week, Corning, 3M, Gilead Sciences and Capital One Fin'l each hiked its payout.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 2.4.21)	45	1	0	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2022 (Est.)	$63.76
2021 (Est.)	$59.60
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39

Source: Bloomberg. As of 2.5.21

…and the longer one holds Value Stocks and Dividend Payers, the greater the likelihood of not only making money, but achieving an annualized return above that current available on the 10-Year U.S. Treasury.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

While fixed income investments generally boast lower volatility than equities, it is nice to see the historical odds of Value Stocks and Dividend Payers outperforming the current 1.16% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >1.16%	Count <=1.16%	Percent >1.16%
1 Month	702	420	62.6%
3 Months	746	374	66.6%
6 Months	777	340	69.6%
1 Year	790	321	71.1%
2 Year	893	206	81.3%
3 Year	937	150	86.2%
5 Year	933	130	87.8%
7 Year	991	48	95.4%
10 Year	967	36	96.4%
15 Year	938	5	99.5%
20 Year	883	0	100.0%

DIVIDEND PAYERS

	Count >1.16%	Count <=1.16%	Percent >1.16%
1 Month	701	421	62.5%
3 Months	765	355	68.3%
6 Months	791	326	70.8%
1 Year	825	286	74.3%
2 Year	919	180	83.6%
3 Year	910	177	83.7%
5 Year	953	110	89.7%
7 Year	983	56	94.6%
10 Year	960	43	95.7%
15 Year	930	13	98.6%
20 Year	883	0	100.0%

From 07.31.27 through 12.31.20. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

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

Search engine and internet technology leader **Alphabet** (GOOG – $2088.83) posted adjusted earnings per share of $19.24, versus the $15.58 estimate, in fiscal Q4 2020. GOOG had sales of $46.4 billion, versus the $44.2 billion estimate. Because the company crushed forecasts on the top and bottom lines, shares gained more than 7% to an all-time high.

CEO Sundar Pichai commented, "Last year I talked about our 4 big themes of helpfulness, trust, execution and sustainable value. These will continue to guide our strategic focus across the company in 2021 and beyond as we continue to advance our core information mission in products like Search, Maps and YouTube; keep people's information safe and secure; drive

substantial advancements in AI over the next 3 years; and ensure we are the most effective place to work beyond COVID, all supported by sustainable long-term businesses. I want to thank our teams across Google and Alphabet for all of their work this quarter and throughout all of 2020. 2021 gives us another chance to be helpful to people, businesses and communities. While there's hard work ahead, I'm profoundly optimistic about what we'll accomplish together."

Chief Business Officer Philipp Schindler added, "In the fourth quarter, retail was the largest contributor to the year-on-year growth of our ads business. Tech, media and entertainment and CPG were also strong contributors. The trajectory of search advertising over the past year demonstrates its responsiveness to consumer interest and needs and how marketers can quickly adjust their spending as circumstances change to focus on generating ROI for their businesses… After a substantial pullback at the outset of the pandemic, brand spending began to recover in the third quarter. Marketers realized that even if there was a pullback in consumer demand in the short term, they needed to keep their brands in front of people to stay top of mind when spending pick back up."

Mr. Schindler continued, "In the fourth quarter, the year-over-year growth rates in retail searches was more than 3x the rate we had seen in the same period last year driven in part by COVID. We also want to make Google the best place for merchants to connect with users, regardless of whether the transaction happens on our platform or theirs. Over the last 12 months, we grew our merchant community over 80%, with significant growth in small and medium-sized businesses. All of these merchants and their inventory will show up across Google, including Search, Image Search and YouTube."

CFO Ruth Porat noted, "Looking forward, we will continue to focus on revenue growth driven by ongoing investment in products and the go-to-market organization. Cloud's operating loss reflects that we have meaningfully built out our organization ahead of revenues, as we've discussed in prior quarters, with respect to the substantial investments in our go-to-market organization as well as engineering and technical infrastructure. Operating loss and operating margin will benefit from increased scale over time. In addition, we are focused on delivering on efficiency efforts across the board to contribute incrementally to profitability over time."

We think the long term for Alphabet remains bright, and while the company's valuation is not super inexpensive (the forward P/E is in the 27 range), we believe the terrific balance sheet ($124 billion in net cash, or $184 per share) and great opportunity ahead make it an attractive holding. The company continues to face regulatory risk in Europe and in the Biden Administration related to potentially anti-competitive practices within the Tech and Communication Services sectors. At this point, it's difficult to handicap the direction the governing bodies will head on that front, but we remain comfortable with our GOOG position. While there is always fear that regulation can kill a company, we think GOOG will be just fine after any dust-up with regulators. Our Target Price has been raised to $2,251.

Family-oriented department store operator **Kohl's** (KSS – $49.53) raised guidance and provided preliminary Q4 2020 results in its business update on February 4, which sent shares soaring. Kohl's Q4 revenue declined approximately 10% year-over-year and the company expects to earn between $1.00 and $1.05 per share, a strong close to the year (which included $3.20 and $0.25

losses in the first two quarters). Investors encouraged by the COVID-19 vaccine distributions and subsequent declines in infection rates, the company's shares have gained 21% this year and are up more than 320% since the pandemic-related low on April 2 of last year.

CEO Michelle Gass said, "We are very pleased with the continued progress we are making against the strategic framework we outlined in October 2020. Our fourth quarter performance exceeded our expectations across all key metrics with sales strengthening as we moved through the period. Digital sales growth remained strong, up more than 20%, and accounted for more than 40% of net sales, with our stores playing a critical role in supporting the heightened demand. Our focus on gross margin showed further traction and we managed expenses tightly, which together strengthened our financial position. I want to thank all of our associates for their exceptional service during the highly unique holiday period."

"As we carry this momentum into 2021, we are confident that our key strategic initiatives will accelerate our top line growth and expand our operating margin. Our partnership with Sephora will launch this Fall in 200 stores and online, commencing a multi-year buildout that will drive significant growth for Kohl's. We look forward to sharing more on this and our other initiatives, as well as providing more detail on our path to 7% to 8% operating margin, on our upcoming earnings call in March," concluded Ms. Gass.

The report did not include cash, debt or other balance sheet updates. Those will come on March 2 when KSS releases final numbers. After a disastrous start to 2020 and shareholders exiting in droves, we are pleased to be rewarded for our patience, and quickly at that. Of course, KSS shares are still a long way off the all-time peak of $82.05 in September 2018, but we think a strong return-to-store trend, propelled by partnerships with firms like Amazon and Sephora, paired with investments in the online business, will keep the stock on an upward trajectory. For the moment, we have elevated our Target Price for KSS to $54, but we would not fault those who were fortunate enough to have bought near the pandemic bottom should they wish to cash in a few of their winnings.

Paper and packaging concern **Int'l Paper** (IP – $47.03) earned $0.75 per share (vs. $0.81 est.) on $5.24 billion in sales in its fourth quarter. IP repaid $1.7 billion of debt and had free cash flow of $2.3 billion in the quarter, which was made possible by strength in the corrugated packaging business and successful cost containment measures. Unfortunately, IP saw relatively weak demand for paper and lower average cellulose fiber pricing, which caused shares to drop more than 7%.

CEO Mark Sutton commented, "At the outset of the COVID-19 pandemic, we established 3 principles to focus on what we needed to do as a company to remain strongly resilient for all of our stakeholders. First was to keep our employees and contractors safe, second was to take care of our customers and third was to maintain the financial strength of the company. I believe International Paper executed extremely well against that success criteria. We did not experience any material operational disruptions due to COVID-19 while taking care of our customers. I'm also proud of the work we're doing to support the critical needs in our communities, which included the donation of 2 million corrugated boxes to agencies that have delivered essential food and supplies. We remain absolutely committed to our COVID-19 principles, and we'll

continue to focus on what we need to do to further strengthen the company for all of our stakeholders in the short term and in the long term."

CFO Tim Nicholls gave his outlook, "We remain committed to a competitive and sustainable dividend with a target range of 40% to 50% of free cash flow, which we review annually as earnings and cash flow grow… Investment excellence is essential, growing earnings and cash. We expect CapEx in 2021 to be around $800 million. We will continue to proactively manage CapEx and have the ability to increase or pull back as circumstances warrant. You can expect strategic capital to be deployed mostly to our packaging business to build out capability and capacity needs to drive profitable growth…Demand for corrugated packaging is very strong as we entered the first quarter. Demand for fluff pulp accelerated in the fourth quarter, and that momentum continues in the first quarter. In Printing Papers, we're seeing a modest recovery in demand, but challenges will likely persist until we see a broad-based return to offices and schools."

Competition is likely to remain stiff and we were not surprised to see the strong corrugated packaging results, especially considering the amount of IP and **Westrock** (WRK – $43.08) packaging that shows up at our doorsteps (yes, we look!). We expect the office and school environment to be lumpy a while longer as things begin to reopen in a more permanent fashion. We think International Paper's balance sheet and free cash flow offer flexibility to adapt and defend its position as the largest containerboard manufacturer in the United States. While analysts have grown pessimistic on the earnings outlook, IP currently trades for less than 13 times NTM projections and a recent dividend increase has pushed the yield to 4.4%. Still thinking that IP is a play on the growth of e-commerce, our Target Price is now $61.

Shares of **Snap-On** (SNA – $184.37) rose 2.4% last week as the manufacturer and distributor of tools and diagnostic equipment delivered much-better-than-expected Q4 results. Revenue came in at $1.07 billion, 14% above the consensus analyst estimate and 12.5% higher than the same period in 2019, and adjusted EPS of $3.84 beat average forecasts by 30%.

"Our fourth quarter was another encouraging period in which Snap-on continued its upward trajectory, extending to new heights in both sales and earnings…achieved directly against a disruption of historic proportion…all while prioritizing the health and safety of our constituents," said CEO Nick Pinchuk. "We believe our performance clearly confirms the continuing and abundant opportunities along our runways for growth and improvement, demonstrates the strength inherent in our operations, and testifies to the resilience of our enterprise, supported by our franchise network, by our capacity for critical innovation, and by our deep connection with makers and fixers. We're further heartened that the gains were achieved in the challenging COVID environment, while still expanding our special advantage in our products, in our brands, and in our people. Those elevated capabilities enabled us to reach higher in the quarter and will serve as an effective base for attaining increased progress as we move forward through 2021. Finally, I want to celebrate our franchisees, our associates, and our customers who have labored at their essential tasks, especially in repair shops, in warehouses, and in factories. Their dedication and hard work have helped preserve our society during the time of the virus…an effort that will be remembered for years to come."

While a shift to more work from home may cause some to think that there could be a materially negative impact to the repair space, we believe activity will continue to increase as it has the past few quarters in all regions in hand tools and for diagnostics and repair equipment. We see vehicle repair work actually rising in the coming years as COVID-19 has spurred increased population growth in the suburbs and smaller cities where often individual transportation is necessary. While there are numerous competitors and headwinds in its international businesses, we like that the Snap-on brand carries weight with professional mechanics and technicians, and we still think the underlying fundamentals for the U.S. tool business are supportive of long-term growth as increased complexity in autos and industrial equipment has spurred demand for specialty tools and sophisticated diagnostics. The company's fast-growing repair systems and information segment offers high-margin revenue that should be sticky. Snap-on, which boasts a reasonable forward earnings multiple of 15 and a 2.7% dividend yield, has broad geographic coverage with a massive mobile sales force. Our Target Price for SNA has been boosted to $209.

Shares **MDC Holdings** (MDC – $58.85) jumped more than 13% last week as the homebuilder reported strong Q4 results. Adjusted EPS came in at $2.19, 27% above the consensus forecast. Revenue of $1.22 billion was up 10% year over year and came in slightly ahead of consensus expectations. The company said that its backlog dollar value was up 87% year-over-year to $3.26 billion and that the dollar value of net new orders increased 92% year-over-year to $1.32 billion, with net orders increasing 72% to 2,708 and the average selling price of net orders rising 12%.

Larry A. Mizel, MDC's Executive Chairman, stated, "MDC delivered another quarter of significant order growth and strong profitability in the fourth quarter of 2020. The dollar value of our net orders for the quarter increased 92% year-over-year on a 67% improvement in sales pace, as we continued to see broad-based strength in demand from both a geographic and a product standpoint. Net income rose 59% to $147.5 million, based on the significant growth of both our homebuilding and our financial services operations."

Mr. Mizel continued, "The new home industry continues to benefit from a number of tailwinds, including limited existing home inventory, low mortgage rates, pent-up demand resulting from millennials aging into their prime home-buying years and an increased emphasis on single family home ownership brought about by the pandemic. The outlook for each of these drivers appears to be favorable to start 2021, giving us optimism for our industry and our Company. Given this positive outlook, we have taken steps to fortify our financial position, including the expansion of our homebuilding line of credit to $1.2 billion and the recent issuance of $350 million of senior notes at a record low rate of 2.5%. With a positive industry backdrop, a sizable backlog and a strong balance sheet, MDC is well positioned to build on our success from 2020."

David D. Mandarich, MDC's fairly new CEO, added, "2020 was an outstanding year for our company as we successfully navigated the challenges brought about by the pandemic and delivered strong returns for our shareholders. Our focus on more-affordable product and our build-to-order operating model proved to be ideally suited for these turbulent times and allowed us to post significant improvements to nearly every relevant operating metric for the year. As we head into 2021, we remain excited about the opportunities available to our Company, including our recent entry into the Boise market. With a proven business model, a seasoned leadership

team and an established track record of success, MDC remains well positioned to take advantage of the favorable housing demand we see today."

We continue to be impressed with MDC's momentum build and we believe that the company is poised for more long-term success. On a historical basis, interest rates are extraordinarily low and probably will remain that way, which should help MDC as the cost of borrowing for both it and its potential customers remains extremely attractive. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet Additionally, we like its focus on first time buyers (many Millennials) with its Seasons collection of homes. Even as the stock is up more than 21% year-to-date, MDC's dividend yield is a rich 2.7% and shares change hands at only 7.5 times NTM adjusted EPS projections. Our Target Price for MDC has been hiked to $68.

Engineered bearing maker **Timken Co.** (TKR – $72.79) reported Q4 results before the market open on Thursday that missed analyst estimates. TKR earned $0.84 per share in the period (vs. the $0.93 est.), pushing EPS for the full year to $4.10, a 11% decline year-over-year. Sales for all of 2020 were 3.5 billion, a 7% decline compared to 2019. After climbing 5% over the first three trading days, shares sold-off on the morning of the release to close 3% lower for the full week.

Timken invested $75 million last year in the renewable energy space which now represents the firm's largest market at 12% of sales. Management hinted that mobile industries, heavy truck and off-highway markets are hitting their stride, while automotive and the defense side of aerospace are also strong and above prior year. And, although rail and commercial aerospace are expected to start the year down, the company anticipated that rail will improve and turn positive throughout the year.

CEO Richard G. Kyle commented, "Fourth quarter revenue came in above our expectations, and we generated strong cash flow to finish out a solid year in a turbulent market environment. Our full-year operating margin performance was very good despite the decline in revenue from the global pandemic. In 2020, Timken demonstrated its resiliency and ability to generate strong financial performance through challenging end markets. During the COVID-19 pandemic, we prioritized employee safety, served customers, reduced costs and strengthened our financial position, while investing for future growth. This performance demonstrates the power of Timken – a more diverse, higher-performing industrial company."

Management expects the firm to earn between $4.70 and $5.10 per share for 2021. Mr. Kyle continued, "We plan to deliver strong sales and earnings growth in 2021, driven by improving industrial markets, an active pipeline of new business wins and continued outgrowth in sectors like renewable energy and marine. While we anticipate some near-term uncertainty and supply chain challenges related to the COVID-19 pandemic, we are seeing sequential strengthening in our business to start the year and we believe a sustainable industrial expansion is underway. Timken expects to deliver another year of solid margin performance and cash generation, while maintaining industry-leading customer service. We are well-positioned for the opportunities that lie ahead as we continue to advance Timken as a global industrial leader in 2021 and beyond."

We continue to think TKR has good long-term return potential as organic investments and strategic M&A over the past several years have improved operating performance and will help reduce the cyclicality of the business. We also like Timken's business mix and that revenue is diversified across several end-market sectors, ranging from industrial to aerospace to renewable energy. With $136 million returned to shareholders in 2020, Timken's free-cash-flow growth potential should further support diversification investments and return of capital to holders via buybacks and dividends. TKR yields 1.6% and trades at 14.6 times NTM adjusted EPS estimates. Our Target Price for TKR now stands at $88.

Shares of **Pfizer** (PFE – $34.92) dipped 2.7% last week on the release of its Q4 financial results. The pharmaceutical giant earned $0.42 per share, 18% lower than the $0.51 consensus analyst estimate. Despite the miss, full-year EPS of $2.22 was 18% higher than 2019 when adjusted for earnings from the Upjohn segment, which was spun off from the company late last year. And, Pfizer now believes it can deliver up to 2 billion doses of its COVID-19 vaccine by the end of 2021, which it has priced at lower than usual margins in an act of goodwill. The rest of the portfolio continues to perform at a high level with multiple major contributors experiencing high-single-digit and double-digit revenue growth.

Key Takeaways

- Delivered a solid quarter, highlighted by 11% operational revenue growth. With the Upjohn Business separation complete, FY 2020 revenues grew 3% op; excluding the impact from Consumer and $154 million of BNT162b2 sales, revenues grew 8% op
- Provided 2021 financial guidance[1], selected 2021 financial guidance ranges excluding BNT162b2 as well as assumptions related to BNT162b2 contribution within guidance
- Key product and pipeline milestones achieved since our previous quarterly update
  - BNT162b2 has been granted a conditional marketing authorization, EUA or temporary authorization in more than 50 countries worldwide, including the U.K., the U.S. and the 27 member states of the EU
  - European Commission approved Bavencio as monotherapy for 1L maintenance treatment of adult patients with locally advanced or metastatic urothelial carcinoma who are progression-free following platinum-based chemotherapy
  - Announced positive top-line results from the fifth Phase 3 trial of abrocitinib, JADE REGIMEN, a 52-week study which investigated abrocitinib in patients 12 and older with moderate to severe atopic dermatitis
  - Announced that the FDA accepted for priority review a BLA for its 20-valent pneumococcal conjugate vaccine candidate for the prevention of invasive disease and pneumonia in adults ages 18 years and older
- Paid $8.4 billion in cash dividends to shareholders in FY 2020

We Remain Committed to Delivering Attractive Shareholder Returns in 2021 and Beyond

[1] See Slides 17 and 18 for definitions and for additional information regarding Pfizer's 2021 financial guidance

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CEO Albert Bourla was very positive on the firm's pipeline, stating, "I would like to start with highlighting the incredible improvements we have driven in our clinical success rates and how they compare with industry benchmarks. Between 2015 and 2020, our Phase II success rates on a 5-year rolling average more than tripled from 15% to 52%, which is almost double the 2019 industry benchmark of 29%. Significantly, most of these successes are either first-in-class assets of innovations built on established mechanisms with novel scientific designs."

He continued, "Our Phase III success rate on a 5-year rolling average improved from 70% to 85%, 13 points higher than the 2019 industry benchmark of 72%. And our end-to-end success rate more than quadrupled from 5% to 21%, almost triple the 2019 industry benchmark of 8%. I would also point out that while our Phase I success rates on a 3-year rolling average stayed flat at 48%. This is 8 points higher than the 2019 industry benchmark. We believe these metrics demonstrate that through our science, we are selecting assets to move through the research and development process that have the best chance of benefiting patients. This did not happen by accident but was a result of a purposeful R&D turnaround strategy that we began in 2011. We aim to sustain these excess rates, which we believe clearly demonstrates the value of our pipeline."

While we appreciate the new revenue stream that the firm will generate from its COVID-19 vaccine, the bottom-line impact will likely be modest, even as the need for booster shots exists in future years if the virus mutates. Nevertheless, we join management in its enthusiasm for the organic growth potential of an emerging pipeline of products. The PFE dividend yield is a robust 4.4% and our Target Price resides at $50.

Biopharmaceutical concern **Gilead Sciences** (GILD – $68.46) earned $2.19 per share in Q4, 8% better than the $2.03 expected by analysts, and 69% higher than the 2019 figure. Sales in the quarter were $7.4 billion, a 26% improvement over the 2019 quarter, mostly due to revenue from Veklury (also known as remdesivir) throughout the pandemic. Thanks to the large quarterly improvement, full-year sales of $24.7 billion were 10% better than the 2019 figure. GILD's HIV franchise continues to perform the heavy lifting, generating nearly 70% of total revenue.

CEO Daniel O'Day commented, "Gilead continues to play a central role in the pandemic, with Veklury now treating one in two hospitalized patients in the United States. At the same time, we continue to meet the needs of people living with HIV, cancer, viral hepatitis and other conditions. As we head into 2021, we have many additional opportunities to help patients, especially in oncology where Trodelvy, for example has the potential to treat a broad range of cancer types. These new opportunities, together with our continued leadership in antivirals put Gilead on a clear path to growth."

Management expects 2021 revenue in the range of $21.7 billion to $22.1 billion without Veklury, which could add another $2 billion to $3 billion, depending on the evolution of the pandemic. CFO Andre Dickinson provided additional color, "This guidance reflects anticipated revenue growth of approximately 9% to 10%, excluding LOEs [Loss of Exclusivity] in Veklury driven by growth from Biktarvy, Trodelvy, Vemlidy and our cell therapy franchise. And while there remains uncertainty with the pandemic, we are making certain assumptions regarding the recovery in underlying market dynamics starting in the second quarter of 2021. And as COVID-

19 vaccinations accelerate, any delay with the vaccine rollouts or any significant reacceleration of the global pandemic could once again adversely impact our business. As a reminder, looking ahead to Q1, we anticipate total product sales, excluding Veklury, will decline by a low single-digit percentage, similar to what we've seen over the past 3 years. This is expected to be driven by customary U.S. seasonal inventory patterns and buying patterns of public payers that negatively affect our payer mix in the first quarter."

We appreciate the nice boost from the HIV segment of late, even as GILD has made efforts in recent years to bolster its oncology portfolio. Fortunately, the firm continues to generate robust enough cash flow to allow for additional acquisitions while returning capital to shareholders. The board announced a 4% increase in the dividend, which pushed the yield to 4.0%. With a forward P/E of 9.6, we've bumped up our Target Price for GILD to $92.

Shares of **Tapestry** (TPR – $37.55) jumped nearly 19% last week after the luxury lifestyle company reported fiscal Q2 2021 results that beat consensus analyst estimates on both the top- and bottom-line. Revenue was $1.68 billion in the period, and adjusted EPS of $1.11 was nearly 11% greater than what analysts were expecting. Online sales grew over 100% year-over-year and now represent half of North American sales and a third of global sales. We are delighted to see the firm reduce its debt balance as $500 million of a $700 million term loan was repaid in the quarter with the remaining amount having been paid since the end of the reporting period. Management now expects sales growth of 10% in fiscal 2021.

CEO Joanne Crevoiserat explained, "Our results significantly outpaced expectations driven by the successful execution of our Acceleration Program. Our sharpened focus on the consumer fueled new customer acquisition across all brands with notable sales gains in Digital and China. Importantly, for the second consecutive quarter, we generated strong operating income growth supported by a reduction in promotional activity and higher AUR, as well as disciplined inventory and expense management. Further, we delivered this profit growth in the face of unprecedented COVID-related external headwinds, including pressured bricks and mortar traffic, store closures and capacity limits, as well as higher freight costs and shipping constraints. I'm incredibly proud of our teams around the world for their unwavering passion, agility, and resilience this holiday season."

Ms. Crevoiserat concluded, "As we enter the second half of our fiscal year, we are optimistic for the future in spite of the uncertain backdrop. We are listening closely to consumers and responding in real-time to changes in their values, shopping behaviors, and brand engagement. We are leaning into the competitive advantages of our platform, bringing innovation to both product and how we connect with customers. As a result, we are driving demand for our categories and stretching what's possible for our brands. Looking forward, I am confident that Tapestry will emerge from the pandemic stronger, well-positioned to both capture market share at higher levels of profitability and fully unlock the flywheel of sustainable, long-term growth."

While fashion and accessory markets remain intensely competitive, we continue to think the firm's brands (Coach in particular) boast significant appeal for luxury consumers. Even as shares have rallied 127% since the end of September, the stock still trades for under 15 times NTM earnings expectations, and current respective EPS forecasts for fiscal '21 and '22 stand at $2.54

and $2.81. And, while the dividend remains on pause, we anticipate solid free-cash-flow generation to allow the firm to resume capital returns in short order. Our Target Price for TPR has been raised to $44.

Ireland-headquartered **Eaton Corp PLC** (ETN – $121.94) released Q4 and full-year financial results Tuesday and shares rose 3.5% on the week. The industrial conglomerate earned $1.28 per share in the period, 6% better than the consensus analyst estimate. Operating margins were a strong 21.1%, up 120 basis points over the fourth quarter of 2019. For full year 2020, sales were down 11% organically from 2019 to $17.9 billion, mostly a result of divestitures of the Lighting and Automotive Fluid Conveyance businesses. Free cash flow as a percentage of revenue was an all-time record of 14.3%.

CEO Craig Arnold commented on 2020, "First, while the pandemic caused certainly an unprecedented economic volatility and downturn, we remain focused on delivering for all of our stakeholders. We remain focused on keeping our employees safe, delivering for our customers, and certainly supporting our communities. And we're also proud of how well we performed for our shareholders. We took the appropriate cost-reduction and cost measurement — cost-management measures to ensure solid decremental margins of 23% and resilient cash flow of $2.6 billion. Our free cash flow to adjusted earnings conversion was very robust at 149%. And free cash flow to sales was 14.3%, 90 basis points over 2019 and another all-time record."

He continued, "We launched a $280 million multiyear restructuring program to reduce fixed costs. This is really targeted mostly in those businesses that have been impacted by the pandemic. And these actions will yield $200 million of mature year benefits and make certainly Eaton stronger in the long run. And lastly, we delivered very strong shareholder returns, results that were 20 basis points above the median of our peer group. And so we're certainly proud of that performance as well. Overall, certainly proud of the team and certainly even more encouraged by our prospects for the future. As we continue to transform Eaton into a company of higher growth, higher margins and more consistent earnings, the company certainly feels like in 2020, we took an important step forward, demonstrating that it is, in fact, a different company, and we're well on our way to delivering against that goal."

"In 2021, we are revising our definition of adjusted earnings to add back amortization of intangibles. We believe this will provide investors with a more accurate measure of our performance and will make it easier to compare our performance to peers," added Mr. Arnold. "For full year 2021, we expect adjusted earnings per share to be between $5.40 and $5.80, up 14% at the midpoint over 2020 adjusted to add back intangible amortization. We anticipate adjusted earnings per share for the first quarter of 2021 to be between $1.17 and $1.27."

Despite a reshuffling of the portfolio in 2020, Eaton's propensity to wheel and deal has not slowed. The firm acquired a 50% stake in Chinese electronics manufacturer Huan Yu High Tech in December and announced agreements to purchase Tripp Lite (power quality products and connectivity solutions) and Cobham Mission Systems (air-to-air refueling systems, environmental systems and actuation primarily for defense markets) in recent weeks.

We remain fans of the strong cash flow, capital returns and transformation of the portfolio toward more attractive end markets in recent years. Nevertheless, we are mildly disappointed at the price paid for some of the more recent purchases. After a nice run of more than 23% over the past 12 months, despite the pandemic, shares now trade at 21.9 times NTM earnings estimates. We have increased our Target Price for ETN to $134, but we do have our eye on this one for a possible trim. The dividend yield is 2.4%.

Shares of **MetLife** (MET – $52.58) rose more than 9% last week as the insurer reported excellent Q4 results. For the quarter, MET announced that it realized adjusted EPS of $2.03, versus the consensus analyst estimate of $1.50. The strong results spanned all segments except operations in Latin America where COVID-19 hit underwritings more than expected. Stronger-than-forecast net investment income contributed throughout the firm, boosted by recent outsized private equity returns. Overall, pandemic headwinds in some segments were essentially neutralized by tailwinds for other segments.

"MetLife delivered a very strong fourth quarter of 2020, capping off a year in which the strength of our diversified businesses was on full display," said CEO Michel Khalaf. "By most key value metrics –adjusted earnings per share, adjusted return on equity, and book value per share – MetLife's fourth quarter results were above expectations. For the full year, in the face of an extremely challenging environment, we demonstrated resilience to low interest rates, exceptional expense discipline, and strong cash generation and I am very proud of how our people lived our purpose and delivered for our customers. As we begin 2021, we remain committed to consistent execution and confident that our Next Horizon strategy will continue to create value for all of our stakeholders."

It's no secret that fixed-income investors around the globe have suffered for some time due to paltry interest rates. This has pressured reinvestment yields for insurers, particularly for those bearing long-dated risks like life insurance. Still, we believe that MET has a solid financial foundation, and we like the exposure to a diverse product mix. The firm is well-positioned as the largest life insurer in North America as measured by in-force coverage, offering financial products and services to over 90 of the *Fortune 100* companies. Substantial international operations should continue to be a core driver of growth going forward. Equally important, shares change hands at less than 9 times expected NTM adjusted EPS and for 65% of book value. Adjusted EPS expectations for 2021, 2022 and 2023 are $6.20, $6.88 and $7.54, respectively. The current dividend yield for MET is 3.5% and our Target Price has been raised to $82.

Industrial workhorse **Cummins Inc.** (CMI – $229.63) produced another solid quarter, but unlike the markets in general, shares took a breather last week, falling 2%. Q4 financial results once again were way out in front of consensus analyst expectations. Adjusted EPS for the period was $3.36, more than 19% higher than forecasts looking for $2.82. Revenue of $5.83 billion was 13% above the consensus estimate. Revenue growth returned in Q4, with sales rising 5% on strength in international markets and especially in China. New Power revenue rose 89% in the quarter as customer interest in hydrogen fuel cell and electrolyzer projects increased.

Looking ahead, Cummins said it projects full year 2021 revenue to be up 8% to 12%, and EBITDA to be in the range of 15% and 15.5% of sales. Revenue is expected to increase in all regions and major markets except China where demand is likely to moderate after a record year in 2020. CEO Tom Linebarger commented, "Current indicators point to improving demand in a number of key regions and markets in 2021. However, significant uncertainty remains, requiring continued strong focus on managing costs and cash flow as our markets continue to recover around the world. We are still operating under a pandemic with extreme safety measures in place and our suppliers and customers are doing the same. This is presenting challenges to global supply chains as our industry responds to rising demand across multiple end markets. Having effectively managed through an extremely challenging 2020, Cummins is in a strong position to keep investing in future growth while continuing to return cash to shareholders."

While we don't normally give much credence to unconfirmed reports or unnamed sources, we do want to mention that it was reported after the market close on Friday that Amazon reportedly ordered over 1,000 truck engines that run on compressed natural gas. The engines are said to be supplied by a joint venture between Cummins and Westport and are designed for heavy duty trucks that can run on both renewable and non-renewable natural gas.

The near-term is still quite uncertain, but Cummins operates from a position of significant financial strength. We like that, despite the headwinds, CMI has shown an ability to remain profitable while still investing in research and development to expand the product base and gaining market share for existing products. We continue to like our exposure to CMI as the shares yield a respectable 2.4% and now trade for less than 17 times NTM adjusted EPS forecasts. Our Target Price has been boosted to $282 and we note that management says it plans to return 75% of operating cash flow to shareholders in the form of dividends and share repurchases.

Semiconductor designer **Qualcomm** (QCOM – $154.84) earned $2.17 per share in fiscal Q1 2021 (vs. $2.09 est.). QCOM had adjusted sales of $8.24 billion (vs. $8.25 billion est.). While strong demand for 5G products and smartphones propelled QCOM to a strong EPS beat, shares tumbled 8% after the company missed on revenue targets and hinted at capacity concerns this year.

CEO Steve Mollenkopf commented, "The simultaneous global adoption of 5G, combined with increasingly complex technical requirements and a pace of change that is accelerating drives a significant multiyear industry transition that plays to our strength. Leadership in developing the products necessary to implement 5G technology and leadership in enabling the industry to rapidly implement 5G seamlessly worldwide. This process continues through the successive releases of 5G currently under development as our foundational innovations, coupled with our ability to implement 5G in products and coordinated deployment in new verticals continues to drive progress outside the handset industry. We continue to invest in complementary technologies that will enable the adoption of 5G use cases that will benefit consumers and businesses in a variety of industries as well as agriculture and the advanced important social objectives of both urban and rural environments, including improvements in health care and education in a more widely connected future." Management also expects growing demand in automotive and cellular applications, as well as Internet of Things (IOT).

On the topic of capacity, QCOM President Cristiano Amon said, "Look, the simple answer is the shortage in the semiconductor industry is across the board, not only leading nodes, but also legacy nodes. You should think about that is used — legacy process is used in a lot of automotive. It's used in all of the networking products and consumer electronics. And also you see that in a lot of the attaches, whether power management chips or RF chips. So the V-shape recovery that we've seen across the industry and all of the accelerated digitization is driving semiconductors, and we've seen that across the board. Specific to a 5 nanometer, I think we're ramping a new process. It's very consistent to our expectations. I would argue that we probably throw a ramp of a new process with our partner. This time, we ship more in the quarter early in the ramp for Snapdragon 800. And we expect to question this to normalize towards the later part of 2021 as capacity is put in place. And we see some of the demand across other sectors of the industry to catch up with supply."

Looking ahead, CFO Akash Palkhiwala added, "Turning to our second quarter guidance. We are forecasting revenues of $7.2 billion to $8 billion and non-GAAP EPS of $1.55 to $1.75, a year-over-year increase of 46% and 88%, respectively, at the midpoints. In QTL, we estimate revenues of $1.25 billion to $1.45 billion, and EBITDA margins of 66% to 70%. In QCT, we expect revenues of $6 billion to $6.5 billion, up 52% year-over-year and EBT margins of 23% to 25%, reflecting EBT dollar growth of 125% versus the year ago quarter… Looking forward to the third fiscal quarter, we estimate QTL revenues to be in a similar range as our second quarter guidance and expect QCT earnings to double on a year-over-year basis. This forecast contemplates the current seasonality of the QCT business following the strength in the first half of the fiscal year, which was driven by 5G flagship launches, including Apple, the holiday season and Chinese New Year. In addition, we are seeing demand significantly outpacing supply given the constraints affecting the industry. Beyond the third quarter, we continue to forecast strong growth across QCT, driven by new device launches, design win traction and strength in our adjacent platforms. Lastly, we launched our latest annual corporate responsibility and ESG report yesterday, which is now available on our website."

Qualcomm has bumped up against our Target Price multiple times and the company continues to grow sales and earnings such that the valuation has remained attractive. In fiscal 2021, analysts expect QCOM to earn $7.30 per share (which pencils out to a P/E ratio of 20) and more than $8.00 per share in fiscal 2022 and 2023. We remain thankful that QCOM has moved past its culture of litigation and think that the opportunities in front of the company are substantial on many fronts. Our Target Price has been lifted to $167.