Market Commentary Monday, March 1, 2021

February 28, 2021

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – Sold a Portion of VIAC
TPS 653 – March Newsletter Coming on Wednesday
Target Prices – New Listing Coming Soon
Media Folly – Hard to Rationalize Short-Term Moves
Econ Outlook – Very Good Numbers
Interest & Inflation Rates – Increases Generally Not Bad…for Value Stocks
Week In Review – Value Trounces Growth
Sentiment – AAII & ICI Folks More Optimistic About Stocks
Health News – J&J Vaccine Approved
Time for Value – Special Report Available
2021 Laggards – 25 Undervalued Stocks Yet to See the Sun This Year
Stock News – Updates on GT, KSS, FL, RCL, EOG, DOC, LOW & MDT

Market Review

A bit of housekeeping before this week's missive. As discussed on Monday's *Sales Alert*, in our hypothetical accounts, we closed out 111 shares of **Viacom** (VIAC – $64.49) at $63.68 in Millennium Portfolio on Wednesday, February 24.

Work is beginning on the March edition of *The Prudent Speculator*. This month, we offer two first-time recommendations, while we look at stellar Q4 corporate profits via our regular Earnings Scorecard feature. If all goes according to plan, we will email out *TPS 653* by Wednesday evening, March 3.

In the interim, we will be posting updated Target Prices for all our recommended stocks to theprudentspeculator.com.

*****

With a sizable pullback setting in on Thursday and Friday, the equity markets provided another reminder that stock prices in the short run move in both directions, even as the long-term trend has been higher.

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%	111.9%	983	27	3.4	3/23/2020	2/12/2021
17.5%	67.2%	574	39	2.3	3/23/2020	2/12/2021
15.0%	66.9%	559	45	2.0	3/23/2020	2/12/2021
12.5%	44.5%	335	72	1.3	3/23/2020	2/12/2021
10.0%	35.1%	245	98	0.9	3/23/2020	2/12/2021
7.5%	23.6%	148	157	0.6	9/23/2020	2/12/2021
5.0%	14.8%	72	306	0.3	10/30/2020	2/12/2021

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 2.12.21. 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

Of course, the financial press didn't know what to make of the twists and turns for the week, as the average stock moved nicely higher through Wednesday.

SO, STRONG ECONOMIC DATA HAD INVESTORS OPTIMISTIC ON WEDNESDAY

We pity those who must try to make sense of daily market gyrations as we saw last week that favorable economic numbers had folks feeling upbeat about the prospects for stocks on Wednesday.

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DJIA 31961.86 ▲ 424.51 1.3% NASDAQ 13597.97 ▲ 1.0% STOXX 600 413.21 ▲ 0.5% 10-YR. TREAS. ▼ 7/32, yield 1.388% OIL $63.22 ▲ $1.55 GOLD $1,796.40 ▼ $8.00 EURO $1.2171 YEN 105.85

Stock Market Sets Records, Signaling Optimism for 2021

By Akane Otani

Markets are signaling that an economy that plunged into its deepest recession in decades a year ago is ready to take off.

Major U.S. stock indexes have set 32 record highs in 2021, including Wednesday's 424-point surge by the Dow industrials to 31961.86. Long-term bond yields are rising, showing increasing demand for funds from consumers and businesses, and inflation expectations are at multiyear highs. The price of everything in markets, from a barrel of oil to a share of mall retailer GameStop Corp. to a bitcoin, seems to be going up.

And moments of caution have been short-lived. Earlier this week, investors sold technology stocks, concerned that the rising long-term interest rates brought by an improving economy would make tech less attractive—in effect, that the economic outlook was too good. But Fed Chairman Jerome Powell reiterated on Tuesday that low rates would be around for a long time. Tech stocks promptly bounced.

The everything rally shows investors believe the fun is just getting started. They believe a combination of more fiscal stimulus, more-extensive Covid-19 vaccinations and pent-up consumer demand, on a background of near record-low interest rates, will at last kick-start economic growth and inflation that were elusive in recent years.

As the U.S. moves past the pandemic, markets are fore-

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Markets Signal Optimism

Continued from Page One

casting people will spend on big-ticket items like vacations, companies will go on hiring sprees and the transition to new technologies such as electric vehicles will accelerate. The most optimistic investors believe the economy, months after it was devastated by the pandemic, will bounce back in a manner akin to the Roaring '20s.

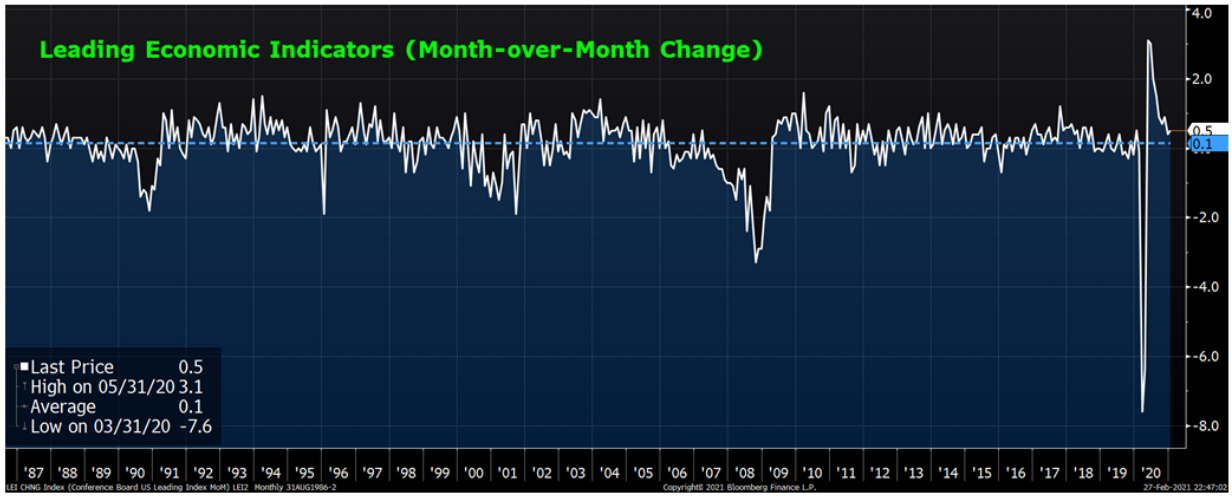
Why is the market so vehemently optimistic right now? For one, the Federal Reserve has repeatedly signaled it won't raise interest rates soon, most recently in Mr. Powell's testimony before Congress on Wednesday. That promise alone is a powerful elixir for investors' appetite for risk, as the market action the past two days shows.

No doubt, upbeat testimony on Capitol Hill from Jerome H. Powell on the state of the economy helped matters as the Federal Reserve Chair said, "While we should not underestimate the challenges we currently face, developments point to an improved outlook for later this year," a prognosis that was seemingly confirmed by the latest better-than-expected reading on the Leading Economic Index (LEI).

THE PRUDENT SPECULATOR

LEI MOVING HIGHER

The forward-looking Leading Economic Index climbed 0.5% on a month-over-month basis in January, up from a 0.4% increase in December. The keeper of the metric stated, "As the vaccination campaign against COVID-19 accelerates, labor markets and overall growth are likely to continue improving through the rest of this year as well. The Conference Board now expects the U.S. economy to expand by 4.4% in 2021, after a 3.5% contraction in 2020."



And, continued strong numbers from the manufacturing and housing sectors,…

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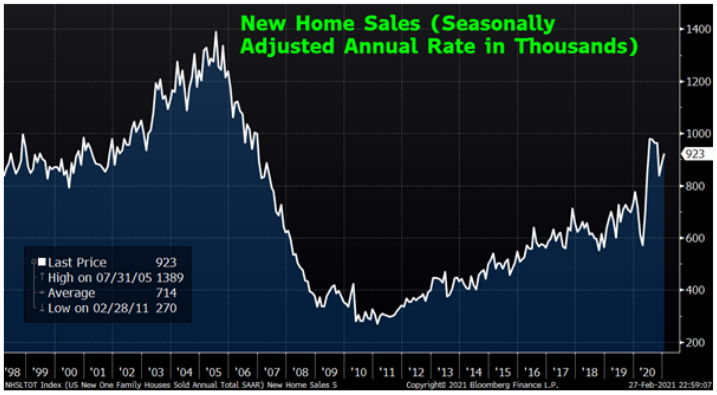
TERRIFIC AND MUCH BETTER-THAN-EXPECTED ECONOMIC NUMBERS



The headline number posted the sharpest increase in six months as durable goods orders for U.S. manufacturers soared in January to a 3.4% gain, blowing away expectations for a 1.0% advance and returning to pre-pandemic levels. Sales of new homes for January came in at a much-stronger-than-forecast 923,000 units, up 4.3% over December's revised 885,000 reading and better by some 19% on a year-over-year basis.

…not to mention a surprising drop in first-time filings for jobless benefits,…

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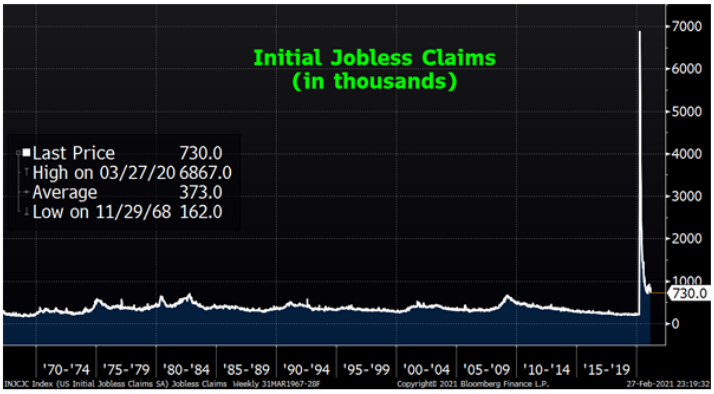
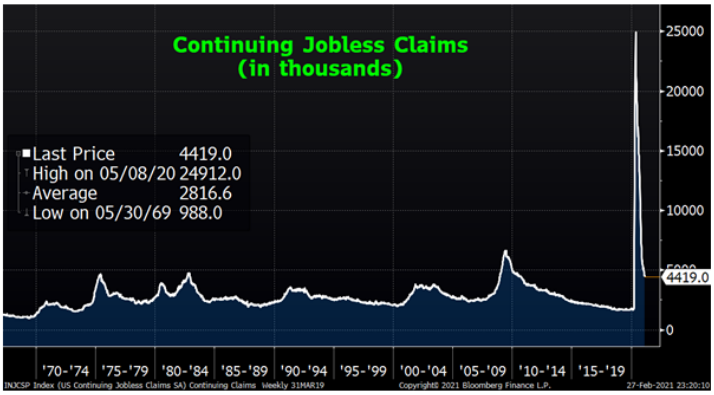
FEWER FIRST-TIME FILINGS AND CONTINUING CLAIMS





The jobs market improved markedly in the latest week, with new applications for unemployment benefits tumbling to a seasonally adjusted and better-than-expected 730,000 for the period ended Feb. 20, down 111,000 from the week prior. Continuing jobless claims filed through state programs dropped by 10,000 to a seasonally adjusted 4.42 million, a new pandemic low. Of course, a massive 79.6 million unemployment claims have been filed since March 20.

…were a big reason that U.S. Treasury yields remained on an upward march, with the 10-Year seeing its rate climb from 0.91% on 12.31.20 to 1.07% on 1.29.21 to 1.52% on Thursday. That piercing of the 1.5% level appeared to be the straw that broke the camel's back for equities, if *The Wall Street Journal* is to be believed,…

OOPS, RISING RATES ON STRONG ECON DATA SOURED THE THURSDAY MOOD

Alas, strong economic statistics saw a continuation in the spike in yields on U.S. Treasury yields, which evidently wasn't a problem on Wednesday, but was on Thursday.

Stocks Slide as Treasury Yields Shoot Up

Tech leads the decline, signaling an investor retreat from risk amid signs of recovery

By Akane Otani
And Anna Hirtenstein

The Dow Jones Industrial Average fell more than 550 points Thursday as a wave of selling that began in the technology sector took down swaths of the market.

Stocks' momentum has faltered the past week as investors have faced a sharp and swift rise in bond yields. The yield on the benchmark 10-year

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DOW JONES | News Corp ★★★★★ FRIDAY, FEBRUARY 26, 2021 - VOL. CCLXXVII NO. 46 WSJ.com ★★★★ $4.00

DJIA 31402.01 ▼ 559.85 1.8% NASDAQ 13119.43 ▼ 3.5% STOXX 600 411.73 ▼ 0.4% 10-YR. TREAS. ▼ 1 5/32, yield 1.513% OIL $63.53 ▲ $0.31 GOLD $1,774.40 ▼ $22.20 EURO $1.2176 YEN 106.25

Tech Leads Sharp Fall In Stocks

Continued from Page One

test stocks of the year, sending shares of companies like Apple Inc., Alphabet Inc. and Netflix Inc. down more than 2% apiece. Tesla Inc. shares dropped more than 8%.

While relatively cheap corners of the market appeared to hold up well at first, with bank stocks and energy producers initially higher for the day, those gains dwindled in afternoon trading, leaving few places for investors to shelter.

The Dow dropped 559.85 points, or 1.8%, to 31402.01, pulling back from Wednesday's record high.

The S&P 500 decreased 96.09 points, or 2.4%, to 3829.34, and the Nasdaq Composite lost 478.53 points, or 3.5%, to 13119.43, notching its biggest one-day pullback since October.

"The market is jittery. The bond yields' rising is putting equities, especially growth stocks, under pressure," said Sebastien Galy, senior macro strategist at Nordea Asset Management. "There is a bit of a risk reduction broadly."

Rising bond yields don't always augur poorly for stocks. In fact, many investors are betting that a sweeping fiscal stimulus package from the Biden administration, coupled with increasing vaccinations, will help corporate profits across sectors improve in the second half of the year. About 91% of fund managers surveyed by Bank of America believe the economy will strengthen this year, the highest share on record since the firm began surveying investors in the 1990s.

U.S. Labor Department data released Thursday showed the number of people applying for unemployment benefits fell sharply last week.

And many contend that the recent weakness in technology shares has been driven by money managers taking some risk off the table after a long run—not necessarily investors giving up wholesale on the sector.

Even after Thursday's declines, for instance, Amazon.com Inc. and Netflix are up more than 50% over the past 12 months, more than doubling the S&P 500's gain over that time.

If the sustained rise in bond yields results in any long-lasting change, many believe it will likely be that investors rethink the balance in their portfolios between fast-growing technology companies and more cheaply valued sectors that have largely underperformed over the past decade.

"It is a change of leadership," said Sophie Chardon, cross-asset strategist at Lombard Odier, who added that banks and oil producers look particularly ripe to benefit from rising rates and growth. The KBW Nasdaq Bank Index of lenders initially rose Thursday before ending down 2.7%.

As the broader market declined, one group bucked the trend: "meme stocks," which have surged in popularity among individual investors this year.

In a wave of volatility reminiscent of last month's rally, GameStop Corp. jumped $17.02, or 19%, to $108.73, while AMC Entertainment Holdings Inc. initially rose before trading down 80 cents, or 8.8%, to $8.29. The two stocks had soared in overnight trading.

Many on Wall Street scrambled to identify a catalyst for the sudden moves. Market observers said the run-up appeared to be the result of renewed interest from investors that was likely exacerbated by activity in the options market.

The moves show "there is still liquidity and a lot of access to speculative bets," Ms. Chardon said. "We have to be prepared to live with this kind of targeted bubble, but I wouldn't see it as a threat to the global equity market."

Meanwhile, selling pressure in the bond markets picked up pace. The yield on the 10-year Treasury note rose to 1.513% from 1.388% Wednesday.

Overseas, the pan-continental Stoxx Europe 600 edged down 0.4%. Shares of beer maker Anheuser-Busch InBev SA fell 5.6% after its fourth-quarter profit came in below estimates.

Investors also sold European government bonds, sending yields higher. The yield on French 10-year bonds, which moves inversely to the price, ticked above zero for the first time since June and reached as high as 0.024%.

In Asia on Thursday, most major benchmarks had finished the day up. South Korea's Kospi had rallied 3.5% after its central bank kept interest rates at historic lows, citing a need to continue supporting the economy.

Index and sector performance Thursday

Source: FactSet

CORRECTIONS & AMPLIFICATIONS

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…even as the benchmark government bond caught a strong buying bid on Friday, driving the week-ending yield back down to 1.40%.

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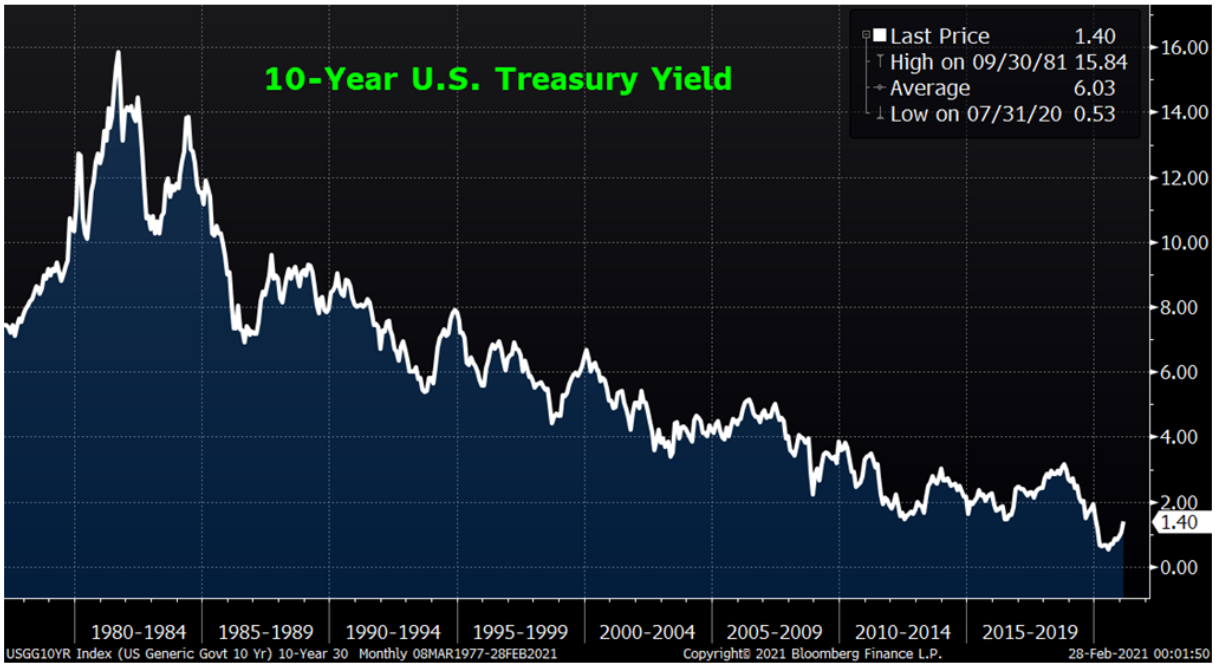
INTEREST RATES CAN MOVE IN BOTH DIRECTIONS

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 seven months or so, even as a 1.40% yield is still extraordinarily low.



Such a sharp move lower in bond yields "should" have led to a rally in stocks on Friday, reversing Thursday's downturn…assuming that market movements were ever easy to rationalize. Instead, the equity markets sank again on the final trading day of the week,…

WAIT, INFLATION MUST BE THE FEAR AS FALLING RATES DIDN'T HELP FRIDAY

Treasury yields plunged on Friday, which should have been a major positive for equities if Thursday's market rationale was accurate, but since stocks sank, inflation evidently became the worry du jour.

THE WALL STREET JOURNAL. ****** Saturday/Sunday, February 27 - 28, 2021 | B13

MARKETS

Stocks Pressured on Inflation Concern

Rising yields curb market's momentum; Nasdaq sees bigger loss for week

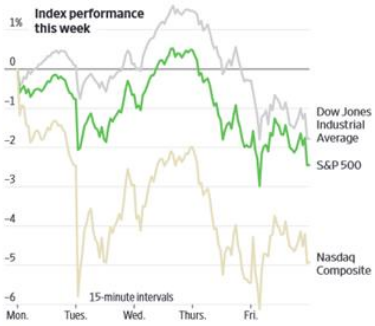
BY PAUL VIGNA AND CAITLIN OSTROFF

Rising bond yields blunted U.S. stocks' market momentum this week despite signs of an improving American economy.

FRIDAY'S MARKETS

On Friday, the Dow Jones Industrial Average fell 469.64 points, or 1.5%, to 30932.37, dropping 1.8% for the week. The S&P 500 fell 18.19 points, or 0.5%, to 3811.15, down 2.45% for the week.

The tech-heavy Nasdaq Composite, which has risen farther than its peers since last March and has been particularly driven by momentum traders, suffered a bigger loss this week. It fell 4.9% on the week, its worst percentage loss since the week ended Oct. 29. On Friday, it rose 72.91 points, or 0.6%, to 13192.35.



Source: FactSet

Government spending and the Federal Reserve's aggressive monetary policy have supported the stock market during a tumultuous year. But those two sources of stimulus are now fueling inflation bets and sparking a bond selloff. When bond yields were at their lows, they offered investors virtually no returns or even negative returns after inflation. The lack of returns on bonds drove investors to stocks, pushing valuations to their highest point in years. Now that bond yields are rising, those richly valued stocks look less attractive.

"Everything is divorced from the risk in those instruments. Everything is mispriced," said James Athey, senior investment manager at Aberdeen Standard Investments. "Markets are increasingly dominated by momentum."

U.S. government bonds showed signs of stabilizing Friday, pushing yields lower. The yield on the benchmark 10-year Treasury note settled at 1.459%, according to Tradeweb, down from 1.513% at Thursday's close.

Yields on Treasurys, considered among the safest assets to own, have been rising in recent days as money managers bet on a rapid economic rebound. Expectations among some investors that inflation will climb sharply prompted concern that the Fed may increase interest rates sooner than previously anticipated, which could potentially boost borrowing costs and weigh on economic growth.

"What has happened in recent weeks is the markets have had to reprice expectations of the Federal Reserve's rate hikes," said Dwyfor Evans, head of macro strategy for the Asia-Pacific region at State Street Global Markets in Hong Kong.

He said the pickup in bond yields would have a knock-on effect on areas such as corporate lending and mortgage rates. "That is why equities will come under pressure here, because rising yields will have some impact on the real [economy] and earnings might have to slow," Mr. Evans said.

Peter Boockvar, chief investment officer at Bleakley Advisory Group, said the rise in bond yields has left the Fed with only a few options. The central bank can either fight the bond market by ramping up its bond buying, abandon its dovish policies, or do nothing and hope it goes away, he said. All options would have different ramifications for the markets and economy.

This is all coming at a time when the economic picture appears to be improving. The rollout of Covid-19 vaccines, a fresh fiscal stimulus package and the Fed's pledge to keep its easy-money policies in place have buoyed sentiment for many weeks.

Fresh data Friday showed that U.S. consumer spending increased 2.4% in January after household incomes jumped 10%, mainly on the latest round of stimulus checks. Investors expect Congress to pass another fiscal aid package in the coming weeks. That money should at some point lead to more spending—and more economic growth. That, in turn, should bolster corporate earnings.

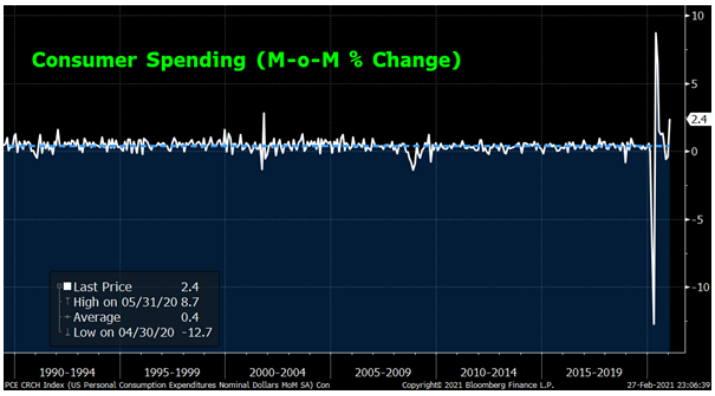
Among corporate names, **Salesforce** was down 6.3% to $216.50 after the company delivered earnings guidance that was below expectations, despite a strong fourth-quarter report.

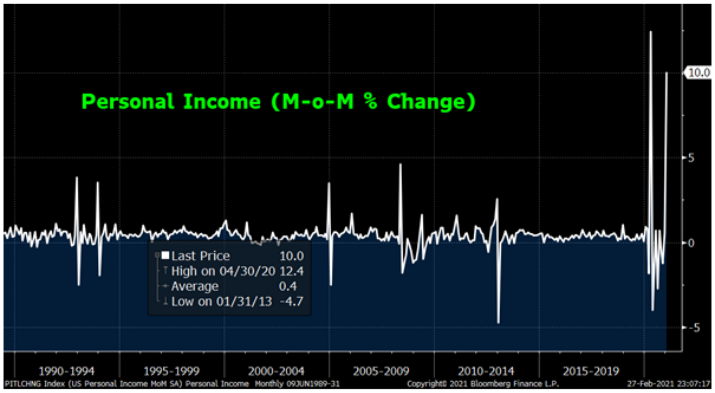
Tech leaders **Apple**, **Amazon**, **Facebook** and **Tesla** all fell over the five days. For the week, Apple lost 6.6%, Amazon fell 4.8%, Facebook slipped 1.5% and Tesla dropped 14%.

…with inflation seemingly the new bogeyman after it was confirmed that consumer spending and incomes soared in January,…

THE PRUDENT SPECULATOR

CONSUMERS CONTINUE TO SPEND AS INCOMES SKYROCKET



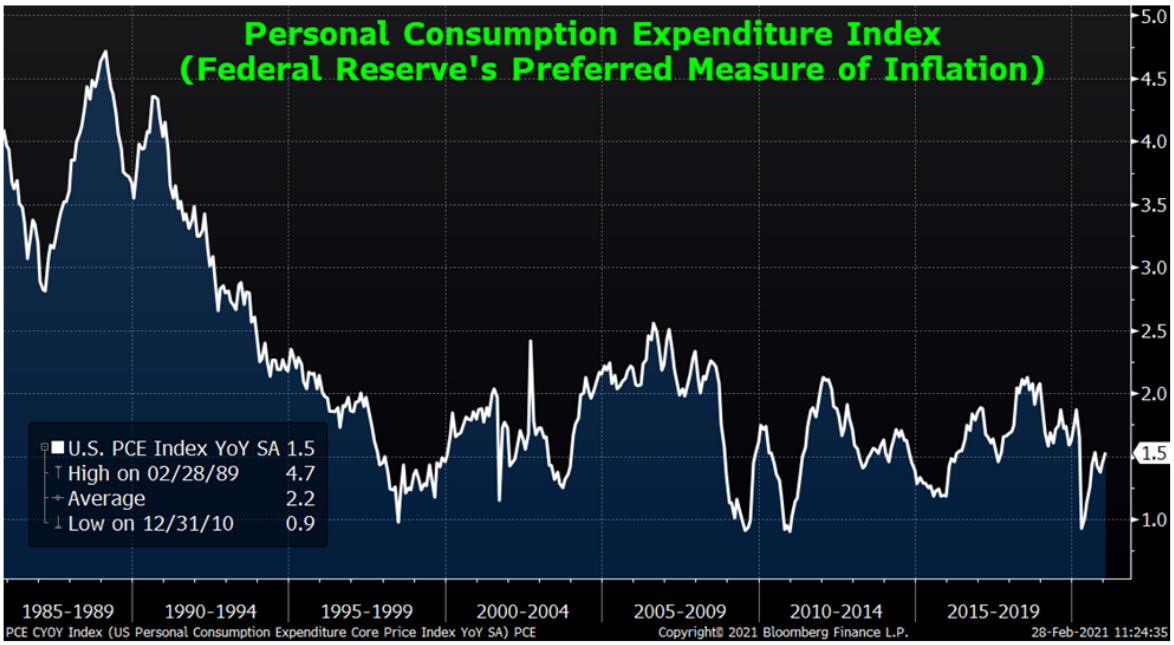


With businesses reopened, more people back to work and $600 stimulus checks in the pockets of many Americans, consumer spending shot higher in January, rising by 2.4% and reversing declines in the prior two months. With personal income soaring by a much-better-than-expected 10.0% in January, folks did not have to reach much into their savings, suggesting that there is still plenty of cash available to fuel continued growth in consumer spending.

…and the personal consumption expenditure index rose 0.3%, with the year-over-year change in the Federal Reserve's preferred inflation measure accelerating to a 1.5% increase, up from 1.3% in December.

FED WILL TOLERATE INFLATION MODERATELY > 2%

The Federal Reserve's preferred gauge of inflation, the Personal Consumption Expenditure (PCE), continues to reside well below its 2.0% target, and Jerome H. Powell & Co. have given themselves a runway to let the economy run hotter before hiking interest rates.



Of course, those worried about inflation seemed to ignore Chair Powell's comments last week, "The pandemic has also left a significant imprint on inflation. Following large declines in the spring, consumer prices partially rebounded over the rest of last year. However, for some of the sectors that have been most adversely affected by the pandemic, prices remain particularly soft. Overall, on a 12-month basis, inflation remains below our 2 percent longer-run objective."

Further, students of market history understand that stock prices have performed fine, on average, over the last nine-plus decades whether inflation is rising or falling,…

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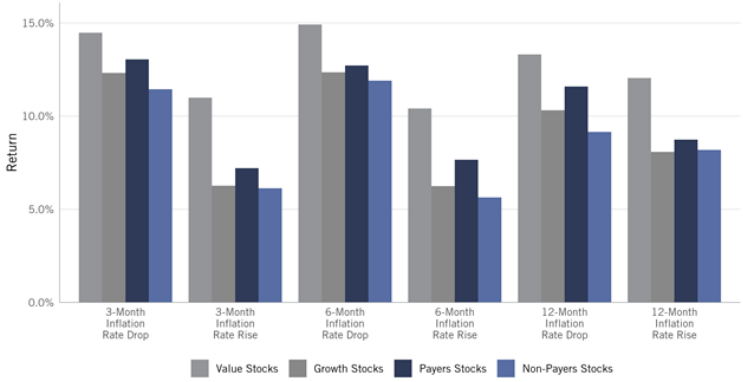
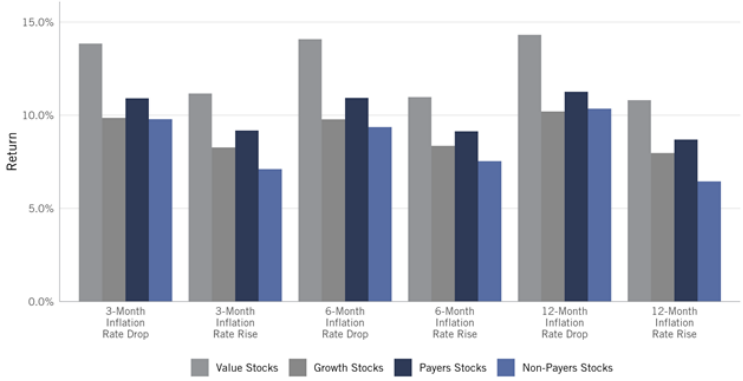
INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



From 12.31.27 through 12.31.20. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 12.31.27 through 12.31.20. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising inflation rates will prove fatal for equities, as 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 inflation rate over 3-, 6-, and 12-month time spans, with Value Stocks and Dividend Payers leading the charge.

…with even the supposedly awful 16-year inflationary period that included the 1970s an incredibly favorable time span for Value stocks on an absolute and relative basis.

Why an Unpleasant Inflation Surprise Could Be Coming

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly for unexpected reasons: it "is sluggish and slow-moving, until it isn't."

A case in point: in 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes," they said.

The effect of an overheating economy was then compounded by policy errors. Fed chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Johnson and then Richard Nixon to keep interest rates low. **From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.**

Wall Street Journal, February 28, 2018

In yet another example of fear over facts, *The Wall Street Journal* warned of dire consequences should we have another inflation and interest rate scare like 1965-1981. If past is prologue, as Value investors, we hope they are right.

Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%

Source: Morningstar

And speaking of relative, there are no prizes for red ink, but Value indexes added to their recent outperformance last week, recording a fantastic five days compared to Growth indexes.

VALUE OUTPERFORMANCE GROWS…PURE VALUE LEADS IN '21

It isn't every week that one can be OK with red ink, but despite a major reversal of fortune on Friday, Value indexes drubbed their Growth counterparts by a very wide margin over the past five trading days.

Total Returns Matrix

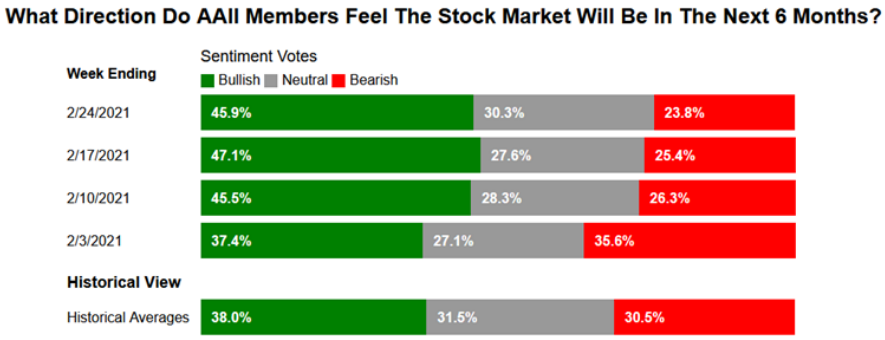
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Since 3.23.20	Last 12 Months	Last 2 Years	Last 3 Years	Last 5 Years	Name
-0.66	-2.59	0.52	2.52	9.54	5.32	12.29	11.65	19.67	Bloomberg Barclays Global-Aggregate Bond
-0.36	-2.15	-1.05	-1.54	4.11	2.06	12.86	16.77	19.23	Bloomberg Barclays US Aggregate Bond
-1.70	1.41	17.61	21.95	69.78	17.37	24.36	28.97	109.27	Dow Jones Industrial Average
-2.24	3.65	21.58	27.56	74.91	17.99	24.66	25.02	78.05	New York Stock Exchange Composite
-4.49	-0.17	15.88	20.94	85.94	38.46	65.11	72.56	169.96	Russell 3000 Growth
-0.91	**5.72**	**25.22**	**32.67**	**75.02**	**16.32**	**22.85**	**23.98**	**76.30**	**Russell 3000 Value**
-2.75	2.67	20.34	26.50	81.54	28.37	44.33	48.39	121.47	Russell 3000
-1.03	5.22	25.40	34.96	89.62	25.93	34.41	38.48	101.25	S&P 500 Equal Weighted
-2.41	1.72	17.19	22.15	73.11	24.50	41.63	45.21	115.86	S&P 500
-3.98	-0.51	13.60	18.44	77.78	33.16	55.76	62.30	149.71	S&P 500 Growth
-0.65	**4.24**	**21.78**	**26.89**	**65.60**	**13.17**	**24.66**	**25.52**	**78.30**	**S&P 500 Value**
-4.87	1.03	18.51	24.42	92.37	33.98	48.25	49.48	129.74	S&P 500 Pure Growth
0.77	**13.33**	**40.27**	**55.89**	**109.42**	**19.27**	**13.40**	**11.60**	**69.23**	**S&P 500 Pure Value**

As of 02.26.21. Source Kovitz using data from Bloomberg

As always, the future is uncertain, and we would not be surprised if the latest pullback carried prices lower in the near-term, especially when we consider that investor sentiment on Main Street (a contra indicator) hit its highest level of optimism for the year this past Wednesday,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULL-BEAR SPREAD MUCH MORE OPTIMISTIC



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 = 7.85											
BELOW	-54.0	7.8	875	0.27%	0.24%	1.28%	1.14%	3.70%	3.31%	6.92%	6.17%
ABOVE	7.9	62.9	875	0.15%	0.13%	0.48%	0.39%	1.83%	1.58%	4.49%	4.02%
Ten Groupings of 1750 Data Points											
1	-54.0	-15.1	175	0.57%	0.50%	2.20%	1.95%	5.88%	5.31%	10.38%	9.12%
2	-15.0	-7.5	175	0.34%	0.31%	0.97%	0.84%	3.98%	3.62%	7.02%	6.25%
3	-7.4	-1.4	175	0.33%	0.30%	1.58%	1.48%	3.39%	2.99%	7.02%	6.37%
4	-1.4	3.0	185	0.09%	0.05%	1.02%	0.93%	2.82%	2.46%	5.96%	5.46%
5	3.0	7.8	165	0.05%	0.02%	0.59%	0.49%	2.44%	2.18%	4.14%	3.59%
6	7.9	12.0	177	0.08%	0.06%	0.50%	0.38%	1.68%	1.44%	5.39%	5.00%
7	12.0	16.4	173	0.16%	0.14%	0.55%	0.46%	2.27%	2.01%	4.80%	4.26%
8	16.4	22.0	184	0.19%	0.17%	0.76%	0.68%	1.95%	1.69%	5.50%	5.09%
9	22.0	29.1	166	0.10%	0.08%	0.29%	0.21%	1.86%	1.57%	4.13%	3.55%
10	29.2	62.9	175	0.24%	0.22%	0.26%	0.19%	1.41%	1.18%	2.57%	2.13%

From 07.31.87 through 2.25.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

With the gauge widely viewed as a contrarian indicator, the latest AAII Sentiment Survey released Wednesday evening saw the widest Bull-Bear Spread of the year at 22.1%, compared to an average gap of 7.5%...and equity prices tumbled over the next two trading days.

…while folks had reversed their propensity to sell domestic equity mutual and exchange traded funds the last couple of weeks.

THE PRUDENT SPECULATOR

STOCKS HAVE ATTRACTED INTEREST BUT BONDS REMAIN VERY POPULAR

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	2/17/2021	2/10/2021	2/3/2021	1/27/2021	1/20/2021
Total Equity	12,164	31,694	-21,677	-6,863	2,524
Domestic	3,518	19,860	-12,607	-5,477	-5,923
World	8,646	11,834	-9,069	-1,386	8,446
Hybrid	-1,112	-45	-1,361	-753	-612
Total Bond	17,564	18,576	27,931	23,116	22,739
Taxable	14,643	14,482	24,722	18,966	18,912
Municipal	2,921	4,093	3,209	4,150	3,827
Commodities	-33	-570	1,561	-40	990
Total	28,583	49,655	6,454	15,460	25,641

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

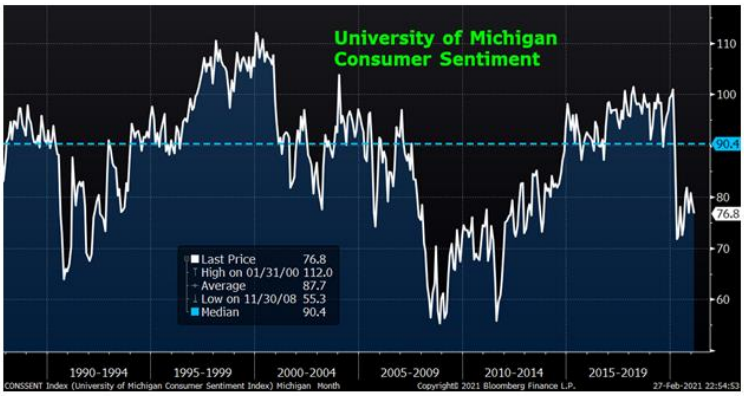
Millions, U.S. dollars

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

Still, we are a long way from normal, much less euphoria when it comes to consumer confidence/sentiment,…

THE PRUDENT SPECULATOR

BETTER, BUT NOT-SO-GREAT CONSUMER CONFIDENCE/SENTIMENT

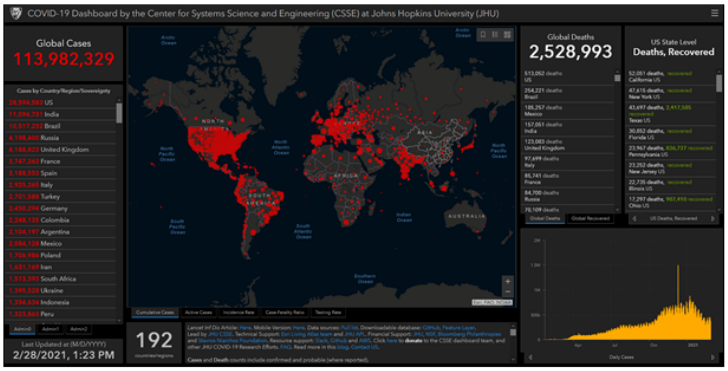


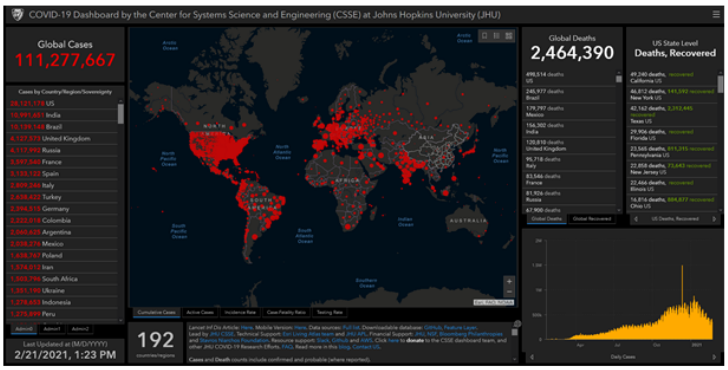
Consumer confidence, per data from the Conference Board, rose in February, jumping to 91.3, up from a revised 88.9 in January and nicely above expectations. On the other hand, the final Univ. of Michigan gauge of consumer sentiment for February came in at 76.8, in line with estimates and up just a smidge from a final reading of 76.2 in January. Both measures were below average, however.

…while we know that the current environment will be shaped by developments on the COVID-19 front,…

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASE AND MORTALITY RATES



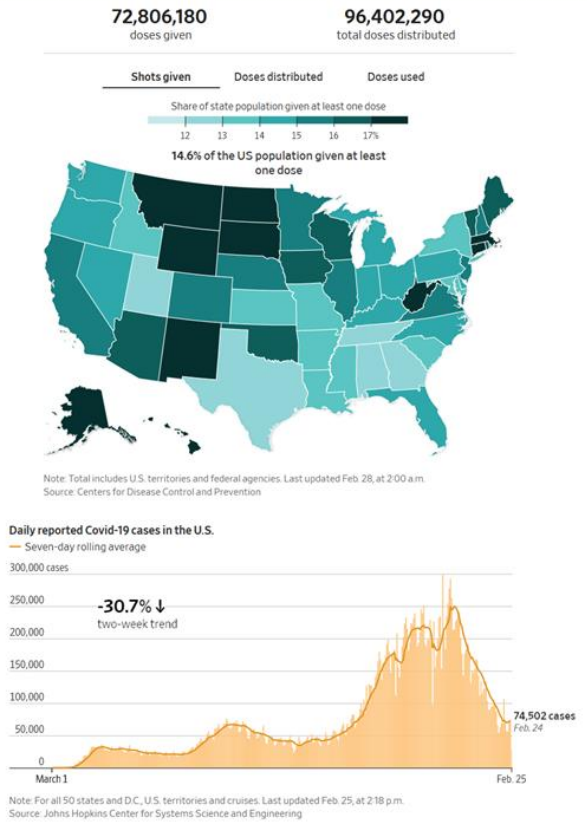


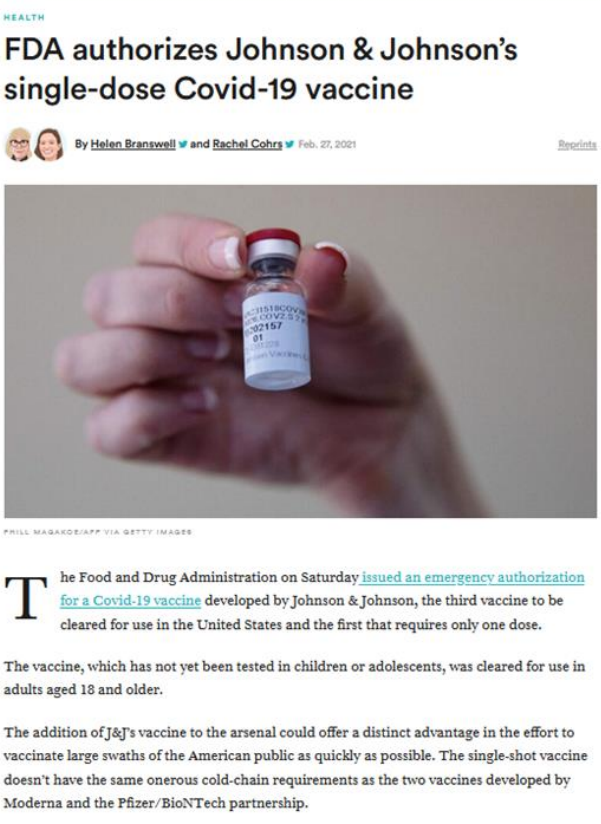
https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

Given that more than 2.5 million have lost their lives around the world, with 513 thousand of those in the U.S., there isn't much positive to say health-wise about the COVID-19 Pandemic, even as the latest numbers are better than a few weeks ago. The number of those diagnosed last week was 2.7 million, down from increases in the 4 million range during January, and the rise in weekly fatalities fell from nearly 84,000 two weeks ago to less than 65,000. Still nothing to cheer about, of course, as new more deadly virus strains are making their way around the world, but hospitalizations have declined considerably, while vaccinations have helped considerably.

…where the one-dose vaccine from **Johnson & Johnson** (JNJ – $158.46) was approved over thee weekend.

VACCINES CONTRIBUTING TO BETTER U.S. COVID-19 NUMBERS





HEALTH

FDA authorizes Johnson & Johnson's single-dose Covid-19 vaccine

By Helen Branswell and Rachel Cohrs Feb. 27, 2021 Reprints

PHILL MAGAKOE/AFP VIA GETTY IMAGES

The Food and Drug Administration on Saturday issued an emergency authorization for a Covid-19 vaccine developed by Johnson & Johnson, the third vaccine to be cleared for use in the United States and the first that requires only one dose.

The vaccine, which has not yet been tested in children or adolescents, was cleared for use in adults aged 18 and older.

The addition of J&J's vaccine to the arsenal could offer a distinct advantage in the effort to vaccinate large swaths of the American public as quickly as possible. The single-shot vaccine doesn't have the same onerous cold-chain requirements as the two vaccines developed by Moderna and the Pfizer/BioNTech partnership.

So, we are braced for additional downside volatility as March begins, but, as we articulated in our latest *Time for Value* Special Report (https://theprudentspeculator.com/wp-content/uploads/2021/02/Time-For-Value-004.pdf), we remain sanguine about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks.

After all, interest rates are still very low by historical standards, while tons of money remains parked in low-yielding fixed income instruments that could migrate toward equities, the Federal Reserve is likely to remain highly accommodative for the foreseeable future, the economy is poised for significant growth this year and corporate profit comparisons should be sensational.

For those looking to put money to work, we'll conclude with a list of 25 of our recommendations that have yet to enjoy time in the 2021 sun.

THE PRUDENT SPECULATOR

TPS RECOMMENDATIONS STUCK IN THE MUD IN 2021

The first two months of 2021 have been terrific for the average stock, especially those of the Value persuasion, but the rising tide has not lifted all boats. In fact, there are undervalued names that are in the red this year, with a few of those amongst the best performers in 2020.

2021 Laggards

Symbol	Common Stock	02.26.21 Price	Target Price	2021 YTD TR	2020 TR	52-Week High	% Below High	52-Week Low	% Above Low	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
PNW	Pinnacle West Capital	$69.93	$104.43	-11.6%	-7.7%	$100.73	-31%	$60.05	16%	Utilities	14.3	2.2	1.5	10.0	8.6	-6.6	125%	4.7%	7,881
MRK	Merck & Co	$72.62	$106.74	-11.2%	-7.2%	$87.80	-17%	$65.25	11%	Pharma, Biotech	12.2	3.8	nmf	27.6	18.1	3.0	nmf	3.6%	183,752
QCOM	Qualcomm	$136.19	$167.23	-10.6%	77.0%	$167.94	-19%	$58.00	135%	Semiconductors	25.4	5.8	nmf	113.1	17.1	4.1	nmf	1.9%	154,712
ARE	Alexandria Real Estate	$159.69	$223.56	-10.4%	13.3%	$179.79	-11%	$109.22	46%	Real Estate	22.1	nmf	1.9	7.4	nmf	nmf	nmf	2.7%	21,828
WMT	Walmart	$129.92	$163.41	-9.9%	23.3%	$153.66	-15%	$102.00	27%	Food & Staples Retailing	23.8	0.7	7.0	17.3	12.4	7.0	111%	1.7%	367,581
NEM	Newmont Corp	$54.38	$79.66	-9.2%	40.3%	$72.22	-25%	$33.00	65%	Materials	20.6	3.8	2.2	12.7	8.0	8.2	30%	4.0%	43,521
AAPL	Apple	$121.26	$152.20	-8.5%	82.3%	$145.09	-16%	$53.15	128%	Technology Hardware	32.8	6.9	30.7	82.1	22.6	3.9	150%	0.7%	2,035,725
TAK	Takeda Pharma	$16.71	$24.94	-8.2%	-3.0%	$20.00	-16%	$12.43	34%	Pharma, Biotech	16.5	3.5	nmf	3.8	11.3	12.2	nmf	4.5%	52,683
PFE	Pfizer	$33.49	$49.76	-8.0%	3.2%	$43.08	-22%	$26.43	27%	Pharma, Biotech	12.3	3.9	nmf	13.3	13.9	5.6	nmf	4.5%	186,795
LMT	Lockheed Martin	$330.25	$502.00	-6.2%	-6.4%	$417.62	-21%	$266.11	24%	Capital Goods	13.5	1.4	nmf	149.5	10.3	6.9	nmf	3.1%	92,504
WM	Waste Management	$110.89	$141.58	-6.0%	5.5%	$125.56	-12%	$85.34	30%	Commercial/Pro Srvcs	27.5	3.1	nmf	20.6	14.8	3.8	nmf	2.1%	46,923
SNY	Sanofi	$45.89	$63.90	-5.6%	0.3%	$55.00	-17%	$37.62	22%	Pharma, Biotech	12.7	5.1	nmf	20.2	6.7	7.2	nmf	3.0%	115,548
NLOK	NortonLifeLock	$19.51	$28.33	-5.5%	41.8%	$24.40	-20%	$15.12	29%	Software & Services	14.9	4.6	nmf	nmf	16.3	-12.1	nmf	2.6%	11,353
VZ	Verizon Comm	$55.30	$73.36	-4.9%	-0.1%	$61.95	-11%	$48.84	13%	Telecom Services	11.3	1.8	nmf	27.5	7.9	10.3	nmf	4.5%	228,840
NTAP	NetApp	$62.60	$81.73	-4.8%	10.9%	$71.68	-13%	$34.66	81%	Technology Hardware	15.4	2.5	nmf	155.8	11.6	7.3	nmf	3.1%	13,984
IBM	Int'l Business Machines	$118.93	$163.98	-4.3%	-1.2%	$136.10	-13%	$90.56	31%	Software & Services	13.7	1.4	nmf	27.0	12.4	14.7	nmf	5.5%	106,275
CAH	Cardinal Health	$51.52	$82.17	-3.8%	10.1%	$59.46	-13%	$39.05	32%	Health Care Equip/Srvcs	8.7	0.1	nmf	93.1	10.7	19.9	nmf	3.8%	15,130
BLK	BlackRock	$694.50	$818.31	-3.7%	47.2%	$788.00	-12%	$323.98	114%	Diversified Financials	20.5	nmf	43.2	14.3	nmf	nmf	nmf	2.4%	106,676
DLR	Digital Realty Trust	$134.73	$170.86	-3.4%	20.5%	$165.49	-19%	$105.00	28%	Real Estate	21.7	nmf	4.9	2.1	nmf	nmf	nmf	3.4%	38,848
DOC	Physicians Realty	$17.00	$22.10	-3.2%	-0.6%	$20.38	-17%	$11.01	54%	Real Estate	16.2	nmf	1.4	3.5	nmf	nmf	nmf	5.4%	3,580
ALL	Allstate	$106.60	$154.93	-3.0%	-0.1%	$114.89	-7%	$64.13	66%	Insurance	7.2	nmf	1.3	21.1	nmf	nmf	nmf	3.0%	32,286
MCK	McKesson	$169.52	$210.25	-2.5%	27.1%	$187.67	-10%	$112.60	51%	Health Care Equip/Srvcs	10.3	0.1	nmf	nmf	-8.2	18.7	nmf	1.0%	26,982
SJM	J M Smucker	$112.00	$141.89	-2.3%	14.5%	$131.69	-15%	$91.88	22%	Food, Bev & Tobacco	11.5	1.5	nmf	11.6	8.4	10.1	nmf	3.2%	12,274
LEG	Leggett & Platt	$43.27	$54.75	-2.3%	-8.9%	$46.13	-6%	$22.03	96%	Consumer Durables	20.3	1.3	nmf	18.3	12.7	9.1	nmf	3.7%	5,754
ALIZY	Allianz SE	$24.12	$33.38	-2.2%	6.8%	$25.44	-5%	$12.48	93%	Insurance	11.8	nmf	1.3	8.8	nmf	nmf	nmf	3.0%	99,445

As of 2.26.21. 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

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

Shares of tire manufacturer **Goodyear Tire & Rubber** (GT – $16.81) raced 21% higher last week as the firm announced that it would be acquiring competitor Cooper Tire & Rubber for a total consideration of $2.5 billion. The price is a 24% premium to the Cooper close from the prior week, but the move is expected to significantly strengthen GT's competitive position, particularly in North America. Goodyear has agreed to pay a bit more than 75% with cash and use stock for the remainder, with the transaction subject to regulatory approval and a vote by Cooper shareholders.

Goodyear CEO Richard J. Kramer commented on the deal, which is expected to close in the second half of 2021, “This is an exciting and transformational day for our companies. The addition of Cooper’s complementary tire product portfolio and highly capable manufacturing assets, coupled with Goodyear’s technology and industry leading distribution, provides the combined company with opportunities for improved cost efficiency and a broader offering for both companies’ retailer networks. We are confident this combination will enable us to provide enhanced service for our customers and consumers while delivering value for shareholders.”

Brad Hughes, Cooper CEO, added, “Cooper has transformed into a dynamic, consumer-driven organization that has balanced traditional and emerging channels to increase demand for our products, while updating and effectively leveraging our global manufacturing footprint. I am extremely proud of what our team has accomplished over the past 107 years and am grateful to our talented employees for their contributions and commitment. This transaction marks the start of a new chapter for Cooper, which we are entering from a position of strength. We believe that it represents an attractive opportunity to maximize value for our shareholders, who will receive a meaningful premium as well as the opportunity to participate in the upside of the combined company. We look forward to the opportunity to combine Cooper’s considerable talents with Goodyear’s, and to be part of a bigger, stronger organization that will be competitively well-positioned to win in the global tire industry.”

Goodyear intends to finance the cash portion of the deal with debt but should see an improvement to its credit position overall given Cooper's net-cash balance sheet. In addition, management expects $165 million of annual cost savings from overlapping corporate functions and operating efficiencies. Assuming it is approved, we like the competitive dynamics offered by the combination as we have long-appreciated Cooper's operating capability. We've bumped our Target Price for GT up to $20.

An open letter written by a consortium of shareholders of **Kohl's** (KSS – $55.25) was released Monday morning. The group of activists, who have apparently been in talks with management since last December, accused the department store operator of poor retail execution and strategy leading to declining sales and margins, and have called for a number of actions to be taken. These include, but are not limited to, board transformation, strategic alternatives concerning the firm's real estate and working capital management, and a review of management compensation. The group reportedly owns a 9.5% stake in the retailer and has nominated 9 individuals to the 12-person board for the upcoming shareholder meeting typically held in May.

Management publicly commented on the letter the same day, opposing the group's efforts to overhaul the board, and pointed to several actions already taken to enact change. These include a recent strategic partnership with Sephora, a focus on activewear and investment in its omnichannel offering. Shares rallied as much as 10% Monday, before closing the day and the week back under $56.

We have written constructively on management's efforts to reverse course (particularly regarding Amazon and the recent partnership with Sephora), all the while battling a very difficult environment over the past year. We think current management actually should be commended, as it is hard to complain about a quintupling of the stock price off of the 2020 lows, while outsider proposals of this sort often sound better on paper than the in reality. That said, we welcome any long-term improvements that may come about given the involvement of the activist group, and we note that they did have some success in turning around (at least as far as the stock price is concerned) a far-more-problematic retailer in Bed Bath & Beyond. We continue to like Kohl's financial position and think the company stands to take market share that is up for grabs due to bankrupt and struggling competition, while stand-alone and strip-mall locations, versus stores within closed-air malls, are a plus. We have hiked our Target Price to $60, but we do want to be careful about overstaying the KSS rebound party as the stock is up nearly 36% this year alone.

Shares of **Foot Locker** (FL – $48.09) fell almost 9% Friday, cutting the 2021 year-to-date gain to 19%, after the footwear and apparel retailer released fiscal Q4 2021 results that disappointed investors. The company realized adjusted EPS of $1.55, versus the consensus analyst estimate of $1.37. However, revenue of $2.19 billion fell short of the average forecast of $2.29 billion. In addition to the revenue shortfall, same store sales surprisingly dipped 2.7%, but gross margins expanded by 160 basis points.

We think the selloff on Friday was overdone, because a little digging into the conference call transcript left us believing the quarterly results were materially impacted by a decline in FL Europe and Canada (represents 27% of total units), as stores were only open for about 60% of

potential operating days, versus almost 100% for U.S.-banner stores, given COVID-19 restrictions. Additionally, headwinds from port congestions delayed product shipments by an average of two to three weeks, heavily impacted FL's ability to meet strong consumer demand and resulted in a 24% decline in merchandise inventories versus a year ago.

"Despite the challenging macro backdrop of COVID-related store closures and supply chain congestion, we delivered strong bottom-line results in the fourth quarter," said CEO Richard Johnson. "Our customers responded well to our solid product offering and exciting holiday campaign, which drove stronger margins and continued acceleration of our digital business. Based on the resiliency we have shown over the course of 2020, I am looking forward with renewed optimism as we continue to advance our long-term strategies and build value for all our stakeholders."

"Our teams continued to execute nimbly in the fourth quarter to manage against the headwinds to our top line. As a result, we delivered gross margin expansion and improved inventory turns, while maintaining our discipline with expense management," added CFO Lauren Peters. "Although over 10% of our store fleet is temporarily closed at present due to COVID-19 restrictions, the strength of our financial position leaves us well prepared to continue navigating the macro challenges, while protecting our bottom line and investing in our growth."

"As previously announced, our Board of Directors approved a meaningful increase in our quarterly dividend to $0.20 per share, a 33% increase from the prior $0.15 per share," continued Ms. Peters. "Combined with the approval of a $275 million capital investment program for 2021, these actions reflect our Board's confidence in the company's strong financial position and ability to pursue our strategic initiatives while also returning more cash to shareholders."

While the near-term continues to be filled with uncertainties, we believe that Foot Locker has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think that longer-term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. Our Target Price for FL now stands at $70.

Cruise operator **Royal Caribbean** (RCL – $60.50) reported a loss of $5.02 per share for its recently ended Q4 2020 amid another period of drastically reduced revenue. Nevertheless, shares catapulted over 30% higher in the past two weeks, pushing gains since the announcement of the Pfizer COVID-19 vaccine to more than 50%. Fast approaching a full year of no sailing, the current date to resume voyages is May 1, although we are prepared to see it pushed out yet again. Since the suspension of cruising, management has raised nearly $9.3 billion of capital through bond and stock offerings in addition to borrowing through loan agreements. Management estimates the company will continue to burn approximately $250 million to $290 million per month for the foreseeable future until operations are back to normal. Also, on January 29, 2021, the company announced it had entered into a definitive agreement to sell its Azamara brand in an

all-cash transaction for $201 million, which includes Azamara's three-ship fleet and associated intellectual property.

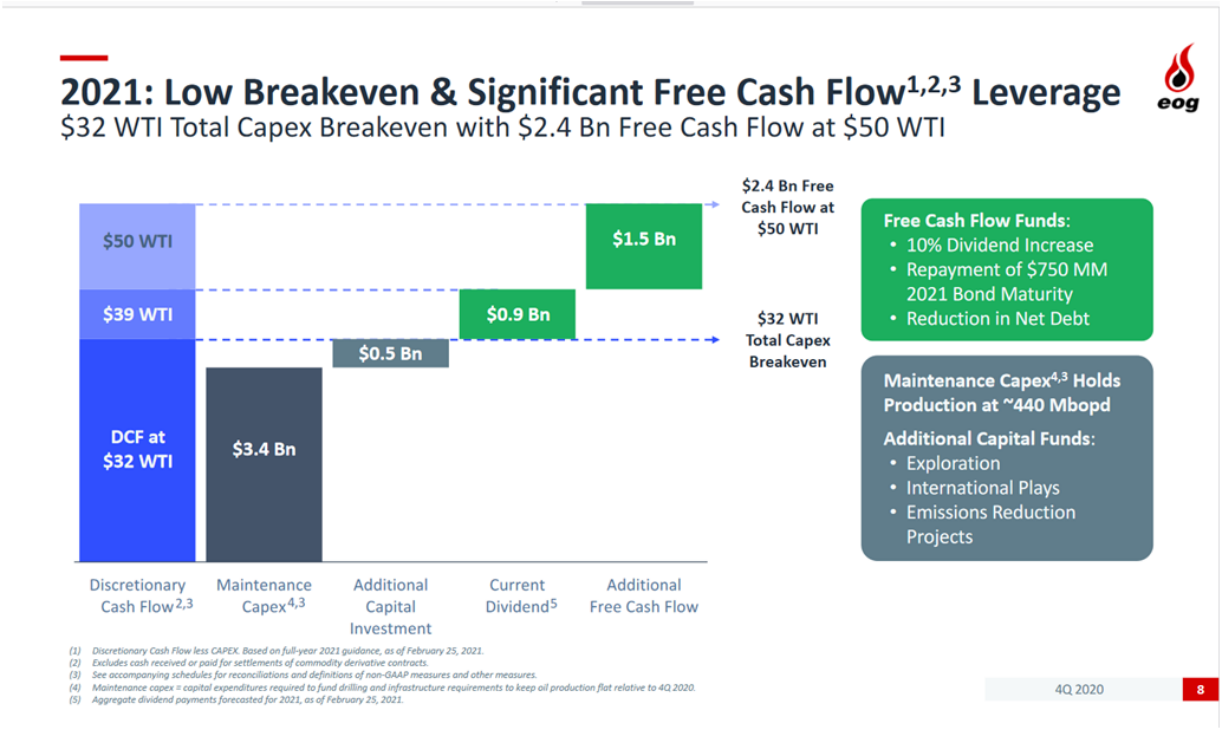
Despite losses expected by analysts out until 2022, recent investor enthusiasm appears tied to the trajectory of the firm's bookings and demand for cruising which remains quite strong. CFO Jason Liberty commented, "Clearly, 2021 is not going to be a traditional year. And to this end, we did not plan for a traditional wave season. And therefore, our sales and marketing activities still remain anemic and extremely strategic. Currently, we don't expect to broadly ramp up our marketing until more ships come back into operation. Despite the lack of marketing spend, we have seen a 30% increase in new bookings since the beginning of the year when compared to November and December."

He continued, "Our Lift & Shift in future cruise credit programs have been very successful in both preserving cash and driving demand for future periods. Having said this, I will highlight that from a cumulative standpoint, almost 75% of our book business is new and not related to rebooking activities. The cumulative book position for sailings in the second half of 2021 is aligned with our expectations in terms of resumption of cruising with pricing higher than 2019, both including and excluding the dilutive impact of future cruise credits. It is probably too early in the booking window to talk too much about 2022, but behavior to date is quite similar to booking activities in previous years. Our book position for the first half of 2022 is within historical ranges at higher average prices."

In what has been a treacherous environment for all businesses related to travel, we have been impressed by the actions management has taken to weather the storm. We still believe people will want to cruise when they are afforded the opportunity and that the longer-term outlook for the category remains strong. That said, debt issuance and payment deferrals into the future will eventually come home to roost, and efforts to make cruising safer will come at a cost, both of which will weigh on results even once sailings are eventually reinstated, so we are keeping a watchful eye on RCL. Our Target Price now stands at $105.

Shares of **EOG Resources** (EOG – $64.56) sank over 5% in Friday trading in a reaction to the energy giant's release of Q4 financial results. EOG earned $0.71 per share in the quarter, more than 98% better than the $0.36 analysts expected and 65% better than Q3 (although down 47% from the year-ago period). Excellent cost control drove per-unit operating expense 11% below the midpoint of management's guidance. EOG also continues to focus on reducing its emissions footprint and has set a goal to eliminate routine flaring by 2025. Despite what we think was a fantastic quarter, it appears selling was a result of management's decision to maintain Q4 production throughout 2021 and maintain its CAPEX plan of $3.9 billion.

CEO Bill Thomas explained, "There is no reason to consider growth until the market rebalances. Signs of an earlier recovery will not change our $3.9 billion 2021 capital plan.…Assuming a balanced market by year-end, we're positioned to grow oil 8% to 10% in 2022 and 2023. We forecast that our shifting well mix towards double premium will lower our base decline rate to less than 25% within 5 years from 34% last year."



Mr. Thomas also commented on the Biden administration's agenda to suspend drilling permits on federal lands: "From the statements made by the current administration, we believe that our current existing federal leases and corresponding federal drilling inventory can be fully developed. EOG is well prepared to manage through any regulatory changes that could impact the pace of development on federal acreage. The combination of our large number of federal permits in hand, our flexibility to pivot within our deep inventory of double-premium locations and our ability to add new inventory through organic exploration gives us the confidence that the future performance of the company will not be affected."

The selloff Friday was not a major surprise, given our warning last month that the ride could be quite bumpy. Nevertheless, we like that EOG is one of a handful of shareholder-friendly oil and gas producers. And while the Street may have been disappointed in the firm's production plans, we think management's focus on capital returns is to be commended. Owing to the strong balance sheet and free cash flow generation, the board recently increased the dividend by 10% and the yield is now 2.6%. Shares trade for 17 and 15 times the respective 2021 and 2022 EPS estimates. Our Target Price for EOG is presently $80.

Shares of **Physicians Realty Trust** (DOC – $17.00) fell more than 2% last week as rising interest rates impacted numerous REITs, even as the company reported solid Q4 results. The

medical properties REIT posted fourth quarter revenue of $111.4 million, an increase of 3.7% over the prior-year period, and better than the consensus estimate of $108.9 million. Funds from operations were $0.26 per share, which was in line with expectations. As of February 22, 2021, DOC had collected 99.6% of Q4 rent. January rent collection was announced at 99.3%, including 100% collection of amounts due under a deferred agreement.

CEO John T. Thomas commented, "Our success in 2020 resulted from attention to our core values summarized by C.A.R.E. We Collaborate & communicate, Act with integrity, Respect the relationship, and Execute consistently. In 2020 we remained disciplined, operationally and financially, to deliver safer health care facilities for our providers and their patients, as well as safer results for our shareholders. From the onset of the pandemic through December 31, 2020 we collected cash equal to over 99% of all rent and other charges due from our tenants, culminating in the collection of 99.6% of rent due in the fourth quarter. We ended 2020 with the lowest outstanding accounts receivable balance we have ever had as a percentage of revenue and an occupancy rate of 96%, the highest of all public owners of medical office facilities. While the equity market was volatile, we ended the year with the best total shareholder return of any public REIT with a significant medical office portfolio. We believe the quality of our health care service providers, clinically and financially, was the primary reason for our solid financial results."

Mr. Thomas concluded, "With the distribution of vaccines in early 2021 and the expectation of returning to 'normal,' we will continue to Invest in better® with a focus on acquisitions and financing new development for growth, our commitment to ESG, and the communities we serve. We look forward to discussing fourth quarter performance, as well as our expectations for 2021 during today's conference call."

There is certainly a lot of the economy that has a way to go before it fully opens back up (without restrictions), but as it does, DOC will benefit as a return to more elective surgical procedures occurs. We continue to favor the expertise and experience of the management team, as well as the favorable demographic trends (20% of the U.S. population is projected to be older than 64 before 2030). We also like the continued focus on leveraging its physician and hospital relationships nationwide to invest in off-market assets that maximize shareholder returns. The current dividend yield is 5.4% and our Target Price for DOC is $22.

Despite posting strong quarterly results, shares of **Lowe's Cos** (LOW – $159.75) sank almost 10% as investors sold on a tepid sales outlook and worries that rising interest rates would cool the hot housing market. For fiscal Q4 2021, the home-improvement retailer reported sales of $20.31 billion and adjusted earnings of $1.33 per share, 4.7% and 10.4% higher than the respective consensus analyst estimates. Same store sales growth of 28.6% trounced expectations of 19.4%, with strength across all U.S. regions and business categories. Operating margin was solid and is expected to continue to improve in calendar 2021, coming in between 11% and 12%. Full-year fiscal 2021 free cash flow generation was more than three times fiscal 2020 and was the highest by far of the last decade. A continuation of solid FCF generation will allow LOW to continue to finance improvements and transformation, support a growing dividend and fund buybacks.

“Strong execution enabled us to meet broad-based demand driven by the continued consumer focus on the home, with growth over 16% in all merchandising departments, over 19% across all U.S. regions and 121% on Lowes.com. I would like to thank our front-line associates for their continued dedication to serving our customers and communities and supporting safety in our stores. I am pleased with our progress in 2020 as we generated nearly $90 billion in sales, with annual sales growth of over $17 billion, while also enhancing our operating efficiency. Looking ahead to 2021, we expect to grow market share and drive further operating margin expansion,” commented CEO Marvin R. Ellison.

Of course, Mr. Ellison conceded that he expects sales to slow as more folks become vaccinated and consumers shift spending back to leisure and entertainment, but he states, “There’s some really good tailwinds for the business long term.” The consistency and strength of the company’s execution through the Pandemic is evidence to us that efforts to turn around and transform LOW have been working. While sales jumped way more than we expected, we do not think the company should be penalized. Management laid out multiple scenarios in calendar 2021, but each sees at least a small top-line decline (though the company is thus far seeing trends toward the most-robust scenario).

We like that the company has invested in a shift of its store layout from product-focused to project-focused. with the expectation that the changes will create a more intuitive shopping experience for customers, and we see a growing to even-stable housing market providing operating leverage. Lowe’s still has risk of lack of exposure to construction professionals, but we are encouraged by the improvements that have been made as the company strives to make the stores a top destination for pros. We also see continued opportunity for the company in e-commerce. We think management’s focus on sustaining higher returns on capital warrants more of a premium multiple for LOW shares versus the historical range, but there is plenty of upside available, in our view, even if the current P/E of 18 is maintained going forward. Our Target Price has been boosted to $190.

Medical device maker **Medtronic PLC** (MDT – $107.86) posted EPS of $1.29 for fiscal Q3, a 10% decrease from the prior-year quarter, but above the analyst estimate of $1.16. Revenue of $7.8 billion grew just 1% from the prior year (due to a currency benefit), and was mostly in-line with estimates. Shares opened trading 3% higher following the release Tuesday morning but faded throughout the remainder of the week. Cardiac & Vascular sales declined 4% on an organic basis due to declines in certain pacemaker and device sales and despite strong adoption of MDT’s new Micra Pacemakers globally. Sales within Minimally Invasive Therapies grew 6.3% driven by a 25% increase in ventilator sales. Restorative Therapies sales were roughly flat as growth in specialty therapies and neuromodulation offset mid-teen declines of cranial and spinal technologies products.

MDT
Q3 FY21 HIGHLIGHTS

GAINING MOMENTUM WITH SEQUENTIAL GROWTH; NEW PRODUCTS DRIVING SHARE GAINS

Revenue:

	Revenue $M[1]	As Rep Y/Y %	Organic[2] Y/Y %	As Rep[3] Q/Q %
CVG	2,707	(4.0)	(5.9)	(0.7)
MITG	2,313	6.3	4.6	1.2
RTG	2,126	0.7	(0.8)	3.1
Diabetes	630	3.3	0.8	9.8
Total	**$7,775**	**0.8**	**(1.0)**	**1.7**
U.S.	3,939	(2.0)	(2.0)	(2.8)
Non-U.S. Dev	2,522	6.1	(0.2)	3.1
EM	1,314	(0.3)	0.8	14.6
Total	**$7,775**	**0.8**	**(1.0)**	**1.7**

Other Financial Highlights:

	Diluted EPS	Y/Y%	CC[4] Y/Y%
GAAP	$0.94	(33.8%)	N/A
Non-GAAP	$1.29	(10.4)	(6.2)

YTD Cash Flow from Ops	$4.5B
YTD Free Cash Flow[5]	$3.5B

- **REVENUE:** Declined -1.0% due to late December and January COVID-19 resurgence but grew 1.7% sequentially[3] (2.3% ex-Vents) reflecting new product launches and share gains in several markets
  - **MITG:** Grew 4.6%; strong ventilator demand drove mid-20's RGR growth; share gains across the portfolio
  - **RTG:** Declined -0.8%; mid-teens growth and sequential share gains in Pelvic Health; LSD growth in Neuromodulation from strong launches of Percept™ with BrainSense™ technology and DTM™ Spinal Cord Stim
  - **CVG:** Declined -5.9% driven by China DES tender; strong Micra™ growth
  - **Diabetes:** Grew 0.8%; return to growth on 780G launch in EU and 770G launch in U.S.
  - **Geographies:** Declines in U.S. -2.0% and Western Europe LSD due to COVID-19 resurgence; Emerging markets grew 0.8% with growth in Latin America, Southeast Asia, and China
- **EPS:** Non-GAAP EPS $1.29 declined -10.4% Y/Y, improvement of 26% sequentially
- **CAPITAL ALLOCATION:**
  - Accelerating our tuck-in acquisitions; announced RIST Neurovascular, the eighth in a series of acquisitions announced since January 2020: Digital Surgery, Medicrea, Companion Medical, Avenu, Laser Associated Sciences, Stimgenics, AI Biomed, and RIST; combined present value total consideration ~$1.7B

1 Data has been intentionally rounded to the nearest million and, therefore, may not sum.
2 Figures represent comparison to Q3 FY20 after adjusting for significant acquisitions or divestitures and currency.
3 Figures represent comparison to Q2 FY21 on a reported basis.
4 Figures represent comparison to Q3 FY20 on a constant currency basis.
5 Operating cash flows less property, plant, and equipment additions.

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Medtronic

CEO Geoffrey Martha said that Medtronic was "well on its way to returning to growth" in top and bottom-line financial results. He added, "This happened despite the impact of the COVID resurgence on procedure volumes in late December and January. We're also outperforming our markets as our new products are driving share gains in an increasing number of our businesses. In fact, we outperformed the market even if you exclude our strong ventilator sales. And when you consider that we're going up against a number of our competitors' year-end pushes and our results include the month of January when COVID was having an increased impact on procedure volumes, our performance is even more impressive."

CEO Karen Parkhill offered the outlook for Medtronic's multiple segments, "It's reasonable to think about organic revenue growth in a range between 30% and 34% if the recovery trends follow our expectations. In that case, by group, RTG [Restorative Therapies] organic growth would be around 50%; CVG [Cardiac & Vascular], around 40%; and MITG [Minimally Invasive Therapies], around 15%, reflecting the continued ramp down in ventilator revenues and a tough year-over-year comparison; and Diabetes organic growth would be in the high single digits."

We are encouraged that MDT seems to have turned a corner going into calendar year 2021 and appreciate that the med-tech concern seems to continuously offer up new products to keep the growth engine going as older products mature. We like the company's diverse portfolio and solid

financial position, which is essential to support increases in research & development spending. With domestic demographic trends in its favor, MDT's terrific products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders, are major assets. Shares yield 2.0% and our Target Price has been adjusted upward to $133.