Market Commentary Monday, March 8, 2021

March 8, 2021

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – 7 Buys Across 4 Accounts
Week in Review – Wonderful 5 Days…for Value
Interest Rates – Increases in Bond Yields are Challenging…for Fixed Income
Bubble Talk – Maybe for Bonds; Not So Much for Stocks
Market of Stocks – S&P 500 YTD Winner & Losers
Economy – Growth Not a Bad Thing
Fed Fears – Tightening Not on the Horizon
2013/2014 "Taper Tantrum" – Warning and Reality
Sentiment – Enthusiasm for Equities has Waned
Value vs. Growth – Plenty of Upside Potential for Inexpensive Stocks
Stock News – Updates on AVGO, MU, HPE, JWN, TGT, KSS, KR & BIG

Market Review

A bit of housekeeping before this week's missive. As discussed in the March edition of *The Prudent Speculator*, we bought the following on Friday, March 5:

TPS Portfolio
116 **Air Products** (APD – $263.82) at $258.2168
97 **Pinnacle West Capital** (PNW – $76.30) at $75.5099

Buckingham Portfolio
133 **NetApp** (NTAP – $61.33) at $60.11
67 **JM Smucker** (SJM – $118.34) at $118.33

In our hypothetical accounts, we added the following, also on Friday, March 5:

Millennium Portfolio
30 **Anthem** (ANTM – $333.60) at $323.72
382 **AXA SA** (AXAHY – $26.50) at $26.11

PruFolio
583 **World Fuel Services** (INT – $35.23) at $34.29

*****
While it was a roller-coaster ride, the market gyrations last week ended on a very high note, especially for those of us who favor inexpensively priced stocks. Indeed, thanks to the big equity market rebound on Friday, the spread in returns between Value and Growth was about as wide…and enjoyable…as we

have ever seen for the full five trading days, with the Russell 3000 Value index gaining 2.70%, compared to a loss of 1.94% for the Russell 3000 Growth index.

THE PRUDENT SPECULATOR

VALUE OUTPERFORMANCE GROWS…PURE VALUE LEADS IN '21

It was a stellar absolute and a phenomenal relative week of returns for the Value indexes, with inexpensive stocks widening the recent performance gap by a wide margin.

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
-1.01	-3.58	-0.50	1.48	8.43	1.93	11.87	10.36	17.97	Bloomberg Barclays Global-Aggregate Bond
-0.80	-2.93	-1.84	-2.32	3.28	-0.26	12.32	16.02	18.54	Bloomberg Barclays US Aggregate Bond
1.85	3.29	19.78	24.21	72.92	23.25	27.80	35.67	108.48	Dow Jones Industrial Average
1.71	5.42	23.67	29.74	77.91	24.18	27.29	30.29	74.64	New York Stock Exchange Composite
-1.94	-2.11	13.64	18.60	82.34	39.03	61.92	72.29	158.47	Russell 3000 Growth
2.70	**8.58**	**28.60**	**36.25**	**79.75**	**24.49**	**26.55**	**29.72**	**74.68**	**Russell 3000 Value**
0.36	3.04	20.78	26.96	82.21	33.01	45.09	51.69	115.77	Russell 3000
2.12	7.45	28.06	37.82	93.65	33.64	37.73	43.73	98.09	S&P 500 Equal Weighted
0.84	2.57	18.18	23.18	74.56	29.30	42.96	49.51	111.93	S&P 500
-1.15	-1.66	12.29	17.07	75.73	34.91	53.16	63.52	141.77	S&P 500 Growth
3.00	**7.36**	**25.43**	**30.69**	**70.56**	**20.73**	**29.41**	**32.25**	**77.69**	**S&P 500 Value**
-4.81	-3.84	12.81	18.43	83.11	30.50	41.49	43.62	113.60	S&P 500 Pure Growth
5.26	**19.30**	**47.65**	**64.10**	**120.44**	**36.65**	**20.86**	**18.45**	**67.87**	**S&P 500 Pure Value**

As of 03.05.21. Source Kovitz using data from Bloomberg

Of course, the financial press didn't know what to make of the Value renaissance, as *The Wall Street Journal* trumpeted the losses for the Nasdaq, even as the broad-based S&P 500 index ended up 0.84% for the week.

Incognito Mode
Firms re-evaluate anonymous staff feedback B2

EXCHANGE

Time Warp
It's not too late to cut your 2020 taxes B5

BUSINESS | FINANCE | TECHNOLOGY | MANAGEMENT
THE WALL STREET JOURNAL.
Saturday/Sunday, March 6 - 7, 2021 | B1

DJIA 31496.30 ▲ 572.36 1.9% NASDAQ 12920.15 ▲ 1.5% STOXX 600 408.68 ▼ 0.8% 10-YR. TREAS. ▼ 1/32, yield 1.559% OIL $66.09 ▲ $2.26 GOLD $1,691.00 ▼ $2.20 EURO $1.1913 YEN 108.38

Treasury Yields Touch Recent Highs

Positive jobs report bolsters optimism for economic rebound; 'market is confused'

By Sam Goldfarb and Paul J. Davies

Yields on U.S. government bonds swung sharply Friday after new data showed a big jump in employment in February, creating more optimism about the economic outlook and debate about the path of interest rates.

The yield on the benchmark 10-year U.S. Treasury note settled at 1.55%, according to Tradeweb. That was down from 1.626% right after the report but still up slightly from 1.547% Thursday.

CREDIT MARKETS

Yields, which rise when bond prices fall, have been surging for weeks based largely on investors' hopes for the near future, when vaccines may have tamed the coronavirus pandemic even as the government continues to pump money into the economy with various stimulus programs.

Some solid economic data, though, has also helped—the latest coming Friday, when the Labor Department said that the economy added 379,000 jobs in February, much more than economists had anticipated.

Friday's move also comes a day after Fed Chairman Jerome Powell made his own contribution to the selling in the bond market. Appearing at The Wall Street Journal Jobs Summit, Mr. Powell said the recent increase in Treasury yields had caught his attention and suggested the Fed might intervene if overall financial conditions tighten much further. But he didn't signal that the Fed was anywhere close to buying more long-term Treasurys in an effort to contain yields, as some investors had thought was possible.

the labor market is at maximum strength.

Many investors, though, don't seem to fully believe or understand the Fed's new policy, creating a challenge for the central bank as yields rise.

"The problem the Fed has now is that the bond market is clearly confused," said Hugh Gimber, a strategist at J.P. Morgan Asset Management.

Despite the sharp increase in Treasury yields, many analysts say the Fed isn't likely to intervene in the market unless there is more severe selling in riskier assets, such as stocks and corporate bonds. Those play roles in determining the cost of raising money for businesses and influencing sentiment.

Some analysts say there are important factors beyond the economic outlook that are driving yields higher. One is the sheer volume of new Treasurys that are entering the market as the government funds its efforts to fight the pandemic.

Another is uncertainty over whether the Fed will extend an exemption allowing banks to hold less capital compared with the size of their balance sheets, which is set to expire at the end of the month.

The exemption enables large banks to exclude their holdings of Treasurys and central bank reserves when working out how much capital they need to meet a standard known as the supplementary leverage ratio. The banks will need more capital to hit the same ratio levels if the exemption is allowed to expire, and analysts say they might do that by selling Treasurys.

Trend-following hedge funds have also contributed to the sharp increase in yields. Such funds have placed their largest bets against Treasurys since late 2016, according to David Lieber, quantitative analyst at Citigroup, having added to their positions significantly since last week's volatility.

Tech-Heavy Nasdaq Logs Third Down Week in Row

By Karen Langley and Joe Wallace

U.S. stocks surged Friday, ending a wild week during which investors continued to rotate out of big technology shares and into the cyclical sectors that tend to thrive in a recovering economy.

The S&P 500 rose 0.8% for the week, as advances by the energy, financial and industrial sectors offset declines in the technology and consumer discretionary groups. The tech-heavy Nasdaq Composite rose 1.5% on Friday but was still down 2.1% for the week—its third consecutive week losing ground. The index is off 8.3% from its Feb. 12 high.

The Dow Jones Industrial Average, which is less oriented toward fast-growing technology stocks, advanced 1.8%.

"This last week has been a classic correction in growth versus value," said Tom Plumb, president and portfolio manager at Plumb Funds. "But it doesn't mean that it portends something much greater."

Stocks have stumbled in recent

Please turn to page B11

Nasdaq Drops for Third Week

Continued from page B1

weeks as a climb in bond yields has called into question whether low interest rates, which propelled valuations higher for much of the past year, will continue. Yields, which rise as bond prices fall, have rallied in response to expectations of a quickening pace of growth and inflation as the economy reopens from the coronavirus pandemic.

FRIDAY'S MARKETS

The potential for more widespread economic growth and higher interest rates has reduced the relative appeal of the technology and other growth-oriented shares that had rallied throughout much of the pandemic.

The yield on the 10-year U.S. Treasury note rose this week to 1.551%, the highest since February 2020. Federal Reserve Chairman Jerome Powell provided no sign the central bank would seek to stem the rise when he spoke Thursday at The Wall Street Journal Jobs Summit.

"It is all about the bond-yield moves. It is all about Je-

It is perplexing that the media seems to ignore the losses incurred in the bond market, given upbeat headlines like "Treasury Yields Touch Recent Highs," with readers having to wait until the third paragraph to learn that yields rise when prices fall. Meanwhile, despite a huge rally in stocks on Friday, and a handsome advance for the S&P 500 for the week, *The Wall Street Journal* dismissed those gains and chose to highlight the 5-day loss for the Nasdaq index.

Perhaps the *Journal* went with the negative headline to better fit the recent narrative that the jump in the yield on the 10-Year U.S. Treasury is bad for stocks,…

Given that stocks have soared since interest rates hit bottom back in July 2020, we find it interesting that the financial press decided to blame Thursday's equity swoon on higher yields for U.S. Treasuries.

BUSINESS & FINANCE

 ★★★★★ THE WALL STREET JOURNAL. Friday, March 5, 2021 | B1

S&P 3768.47 ▼ 1.34% S&P FIN ▼ 1.21% S&P IT ▼ 2.26% DJ TRANS ▼ 2.43% WSJ $ IDX ▲ 0.61% LIBOR 3M 0.176 NIKKEI (Midday) 28359.11 ▼ 1.97% See more at WSJ.com/Markets

Stock Selloff Deepens on Rate Fear

By Caitlin Ostroff And Gunjan Banerji

A dayslong selloff in the stock market intensified and Treasury yields jumped Thursday as the latest comments from Federal Reserve Chairman Jerome Powell did little to assuage fears about the recent rise in yields.

At The Wall Street Journal Jobs Summit, Mr. Powell emphasized the economy is far from reaching full employment. He stopped short of indicating that the Fed would buy more long-term Treasurys each month to contain yields, which some investors thought was possible. Stocks turned lower after his comments, with losses accelerating in the afternoon.

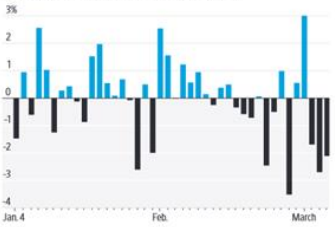
The S&P 500 declined 51.25 points, or 1.3%, to 3768.47, the third consecutive session of declines. The Nasdaq Composite fell 274.28 points, or 2.1%, to 12723.47 and teetered on the edge of a correction—a drop of 10% from its recent high. The tech-heavy gauge recorded its biggest three-day percentage decline since September and has now given up its gains for the year. The Dow Jones Industrial Average lost 345.95 points, or 1.1%, to 30924.14.

The declines were particularly steep among tech darlings and favorites of momentum investors. **Tesla** fell $31.76, or 4.9%, to $621.44, while **ARK Innovation ETF** dropped $6.68, or 5.3%, to $118.43. The losses were broad, with nine out of 11 of the S&P 500's sectors falling.

"The uncertain market got an uncertain message," said Michael Farr, president of Farr, Miller & Washington. "It was a reiteration of a wait-and-see approach," he said of Mr. Powell's comments.

The S&P 500's energy sector was a bright spot, gaining 2.5%. Oil prices rose as the Organization of the Petroleum Exporting Countries and a Russia-led coalition of oil producers kept most of their production cuts in place.

Nasdaq Composite performance, year-to-date



Source: FactSet

Meanwhile, the yield on the 10-year U.S. Treasury note jumped to 1.547%, the highest close since Feb. 19, 2020, before the pandemic tipped the U.S. economy into a recession. That level marks a steep climb from early January when it was as low as 0.915%. Yields rise when bond prices fall.

Thursday marked the latest concurrent move for stocks and bond yields.

A selloff in U.S. sovereign debt has lifted Treasury yields, curbing investors' appetite for the technology stocks that had soared in a low-yield environment.

Some investors have also questioned whether the TINA trade, or the feeling that There is No Alternative to stocks, will end as Treasury yields jump, dealing a blow to a tactic that had propelled stocks for much of last year.

The losses continued early Friday in Asia. At midday, Japan's Nikkei was down almost 2%, while Hong Kong's Hang Seng Index was down 1.4%. U.S. stock futures were off 0.4%.

Please turn to page B11

Stock Selloff Deepens

Continued from page B1

"There's a general feeling that interest rates are likely to go higher," said Chris Zaccarelli, chief investment officer at Independent Advisor Alliance. That's "particularly bad for the types of stocks that led the market higher for the past year."

Central-bank officials have previously said they would keep monetary policy loose until the economy is stronger, and that they view the rise in bond yields as a signal that investors are optimistic about the U.S. economic recovery.

THURSDAY'S MARKETS

Some money managers are betting that additional fiscal stimulus in the U.S. will boost inflation and cause the Fed to raise interest rates sooner than expected. That has led to a jump in real yields, or the returns on bonds after adjusting for inflation expectations.

A measure of investors' inflation expectations also surged recently. Five-year break-evens—which reflect the expected pace of price increases over the five-year period that begins five years from now—climbed above 2.5% for the first time in 13 years before closing at 2.487% Wednesday, according to Deutsche Bank.

Yields on Treasury inflation-protected securities, or TIPS, which are a proxy for the real yields, have also shot upward.

Expectations for U.S. economic growth have been bolstered by a proposed $1.9 trillion Covid-19 relief package. Senate Democrats agreed Wednesday to narrow eligibility for some of the direct payments that are part of the bill, a concession to centrists whose support is needed to pass it.

Overseas, the pan-continental Stoxx Europe 600 fell 0.4%.

Markets were weighed down by uncertainty over the pace of global economic recovery, as well as concerns that quickening inflation could eventually lead to higher interest rates, according to Justin Tang, the head of Asian research at United First Partners in Singapore.

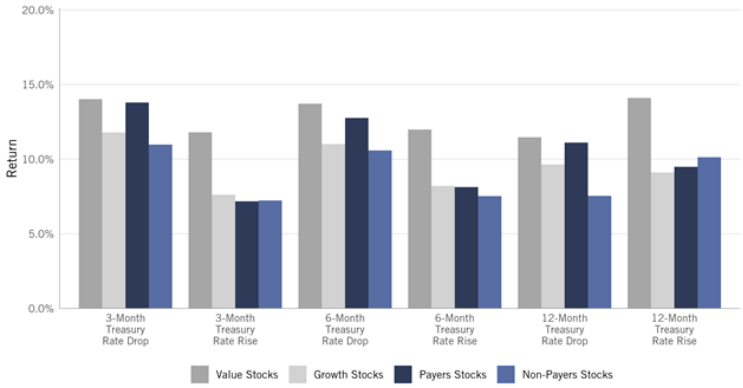
"On one hand, you want the economy to grow, but the massive cash in the economy raises the boogeyman of inflation," he said. "I'm not sure if the economy can actually take higher interest rates at the moment. We are recovering, but I'm pretty sure we're not out of the woods yet," he added.

—Joanne Chiu contributed to this article.

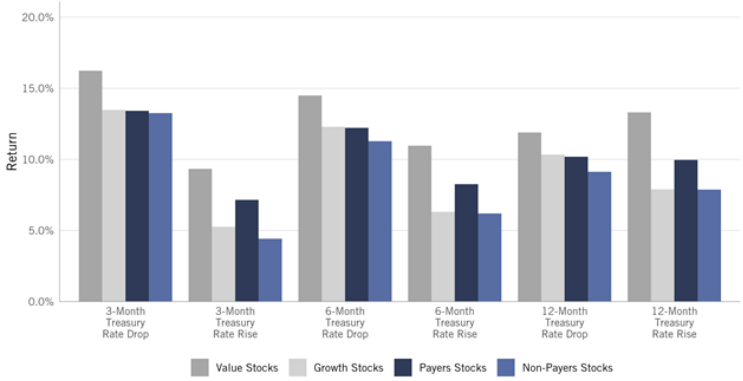
…even as more than nine decades of market history, on average, vehemently argues to the contrary,…

THE PRUDENT SPECULATOR

10-YEAR TREASURY Δ AND VALUE & DIVS



From 06.30.27 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 06.30.27 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 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.

…with annual returns data showing that, though equities prefer a declining rate environment, the outperformance for Value versus Growth is greater when the benchmark government bond yield has risen. Not surprisingly, about the only conclusion that students of market history can draw is that rising interest rates are challenging…for bonds.

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 2020.

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	15.8%	12.4%	13.0%	12.4%	11.7%	12.7%	8.2%	2.9%
Geometric Average	13.2%	10.3%	11.5%	8.4%	11.5%	12.5%	8.0%	2.8%
Median	18.1%	14.8%	14.8%	16.5%	10.5%	10.3%	7.7%	2.1%
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	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

After all, the initial chart in this week's missive shows massive equity market returns across the board and losses on the U.S. Aggregate Bond Index since July 9, 2020, when the yield on the 10-Year U.S. Treasury was 0.63%, compared to today's 1.57%.

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 nearly tripled over the last seven months or so, even as a 1.57% yield is still extraordinarily low.

To be sure, a 10-Year yield of 1.57% is still extraordinarily low by historical standards, but long-term government bond investors have learned the hard way that fixed income investments are not without risk,…

THE PRUDENT SPECULATOR

GOVERNMENT BONDS ARE NOT WITHOUT RISK

No doubt, returns have been stellar in recent years on the iShares 20+ Year U.S. Treasury ETF (TLT), but fixed income investors over the last seven months have suffered 18% losses...on a bond fund!

…a truism that was echoed by Bill Dudley last week in a *New York Times* article, in our view inappropriately subtitled, "Wall Street is in for a rude awakening, former NY Fed president says." Those who managed to get beyond the headline that would seem to suggest that stocks are in trouble would realize that Mr. Dudley's concerns were with the bond market:

"Dudley said he's not sure if he would use the word 'bubble,' but said low Treasury rates are 'absolutely not' sustainable. 'If you define a bubble as something where yields are far away from where you're going to be in the long run, then I guess it's a bubble,' Dudley said. 'I don't see an equity market that's particularly expensive relative to the bond market. What I see is a bond market where yields are extraordinarily low.'"

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.21% vs. 1.57% 10-Year) and generous S&P 500 dividend yield of 1.50%.

Alas, his warning has evidently not been heard by bond investors who continue to pour money into fixed income mutual and exchange traded funds, though folks of late have also thrown a few dollars at equities,…

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	2/24/2021	2/17/2021	2/10/2021	2/3/2021	1/27/2021
Total Equity	8,772	12,166	31,694	-21,677	-6,863
Domestic	14,776	3,520	19,860	-12,607	-5,477
World	-6,004	8,646	11,834	-9,069	-1,386
Hybrid	361	-1,112	-45	-1,361	-753
Total Bond	12,372	17,564	18,576	27,931	23,116
Taxable	11,940	14,643	14,482	24,722	18,966
Municipal	433	2,921	4,093	3,209	4,150
Commodities	-1,523	-31	-570	1,561	-40
Total	19,982	28,588	49,655	6,454	15,460

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

…perhaps helping to account in part for the excellent start to 2021…for the average stock anyway, with those shaded in blue in the chart below current *TPS* recommendations.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – TIDE HAS TURNED IN 2021

S&P 500 Index

12.31.20 to 3.5.21 Performance Data

Company	Weight (%)	Contribution to Return (%)	Total Return (%)	2021 Forward P/E Ratio
Winners				
315 Advancers	**49.20**	**5.95**		
Alphabet Inc-Cl A	1.79	0.33	19.7	25.8
Alphabet Inc-Cl C	1.74	0.33	20.4	25.8
Exxon Mobil	0.64	0.27	50.4	23.4
JPMorgan Chase	1.30	0.24	19.6	14.1
Microsoft	5.38	0.23	4.4	29.4
Bank of America	0.77	0.16	22.4	14.7
Chevron	0.55	0.16	30.9	24.9
Intel	0.73	0.15	22.6	12.9
Berkshire Hathaway-Cl B	1.42	0.13	9.2	23.0
Eli Lilly	0.48	0.10	23.1	24.6
Wells Fargo	0.43	0.09	24.4	14.0
Deere & Co	0.30	0.08	30.0	21.6
Top 12 Total	**15.52**	**2.26**		
Losers				
193 Decliners	**50.80**	**-3.37**		
Apple	6.48	-0.55	-8.4	26.9
Amazon.com	4.23	-0.34	-7.9	46.5
Tesla	1.85	-0.24	-15.3	135.0
Procter & Gamble	1.00	-0.10	-8.9	21.2
Adobe	0.71	-0.09	-11.9	37.4
Costco Wholesale	0.48	-0.08	-15.6	30.2
Qualcomm	0.53	-0.08	-14.4	17.1
Merck & Co.	0.61	-0.07	-10.6	11.1
Facebook	1.97	-0.07	-3.3	21.0
Walmart	0.61	-0.06	-10.4	23.2
Pepsico	0.59	-0.06	-9.6	21.7
Coca-Cola	0.60	-0.05	-7.4	23.4
Bottom 12 Total	**19.65**	**-1.79**		
S&P 500 Index TR			**2.58**	
S&P 500 Index Average Stock TR			**7.98**	

Source: SPDR S&P 500 ETF as Proxy for S&P 500. Kovitz using data from Bloomberg

S&P 500 Index

2020 Performance Data

Company	Weight (%)	Contribution to Return (%)	Total Return (%)	2021 Forward P/E Ratio
Winners				
329 Advancers	**73.20**	**24.74**		
Apple	5.76	3.90	82.3	26.9
Amazon.com	4.17	2.59	76.3	46.5
Microsoft	5.48	2.20	42.5	29.4
Nvidia	0.89	0.76	122.3	38.1
Facebook	2.10	0.71	33.1	21.0
PayPal Holdings	0.70	0.61	116.5	50.4
Alphabet Inc-Cl A	1.66	0.50	30.9	25.8
Alphabet Inc-Cl C	1.64	0.49	31.0	25.8
Netflix	0.73	0.41	67.1	48.2
Adobe	0.75	0.34	51.6	37.4
Qualcomm	0.43	0.29	77.0	17.1
Home Depot	1.01	0.25	24.5	19.9
Top 12 Total	**25.31**	**13.07**		
Losers				
199 Decliners	**26.80**	**-6.39**		
Exxon Mobil	0.72	-0.44	-36.2	23.4
Wells Fargo	0.44	-0.39	-41.7	14.0
AT&T	0.85	-0.30	-21.4	9.4
Boeing	0.40	-0.29	-33.9	155.6
Chevron	0.63	-0.24	-26.0	24.9
Raytheon Technologies	0.33	-0.20	-34.6	18.8
JPMorgan Chase	1.24	-0.20	-5.5	14.1
Citigroup	0.43	-0.19	-19.6	10.2
Bank of America	0.78	-0.19	-11.6	14.7
Raytheon Technologies	0.06	-0.14	-46.6	nmf
Intel	0.90	-0.12	-14.7	12.9
Schlumberger Ltd	0.11	-0.11	-43.8	27.2
Bottom 12 Total	**6.89**	**-2.79**		
S&P 500 Index TR			**18.35**	
S&P 500 Index Average Stock TR			**9.51**	

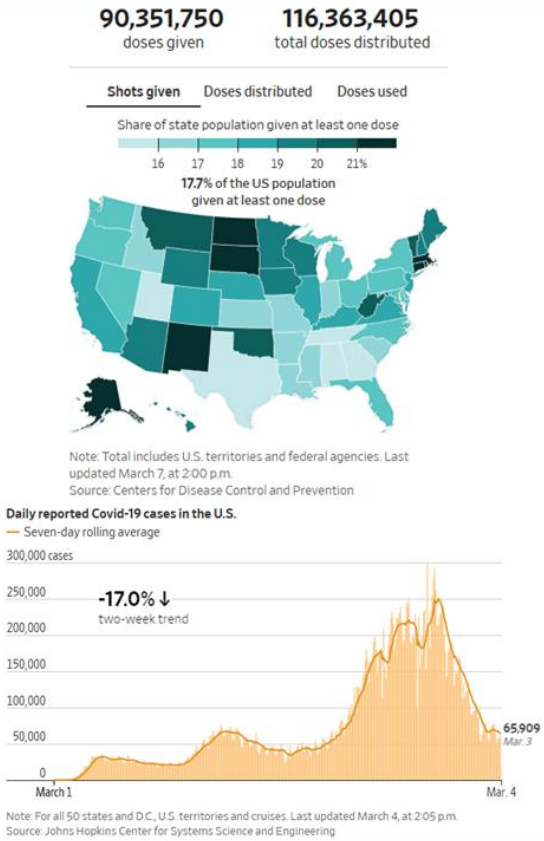
Source: SPDR S&P 500 ETF as Proxy for S&P 500. Kovitz using data from Bloomberg

*****

Certainly, we understand that there is plenty of investor concern about the direction of interest rates, especially with renewed worries last week that inflation will soon be heating up, given improving COVID-19 news,…

THE PRUDENT SPECULATOR

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



10 hours ago

U.S. Daily Covid-19 Cases and Deaths Fall

By WSJ Staff

People line up at a mass-vaccination site in Austin, Texas, on Saturday. JAY JANNER/ASSOCIATED PRESS

Newly reported U.S. coronavirus cases, daily deaths and current Covid-19 hospitalizations all continued to fall Saturday.

The U.S. reported almost 57,600 new infections for Saturday, down from more than 66,000 a day earlier, according to data from Johns Hopkins University that was published early Sunday. The data may update later.

The country reported 1,454 deaths for Saturday—the lowest number this month—continuing a downward trajectory from a recent peak of 2,468 on Wednesday, the Johns Hopkins data showed.

There were 41,401 people in hospitals because of Covid-19 on Saturday, down more than 1,100 from Friday, with 8,409 in intensive-care units, according to the Covid Tracking Project. Hospitalizations have been on a downward trend since topping 130,000 in January, according to the data.

More than 524,000 people have died of the coronavirus in the U.S., while the global reported death toll is approaching 2.6 million, according to Johns Hopkins data.

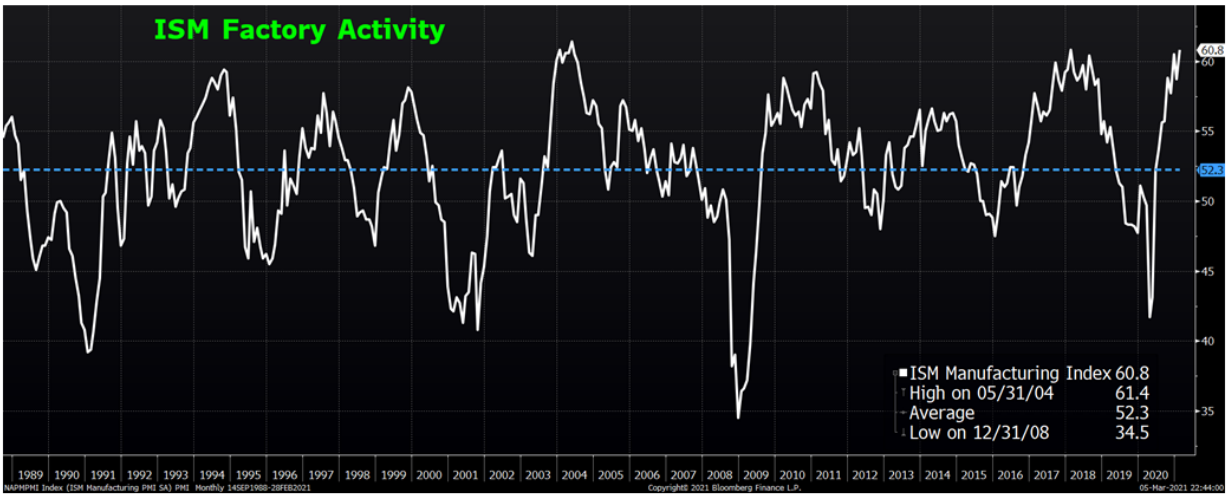
Almost 29 million people in the U.S. have been infected with Covid-19, according to the data. World-wide, the number of cases is above 116.5 million.

…and a continuation of generally favorable economic statistics, like the forward looking Manufacturing PMI index from the Institute for Supply Management (ISM),…

THE PRUDENT SPECULATOR

ISM MANUFACTURING SOARS: 5.0% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in at a much-better-than-expected 60.8 in February, near the highest level ever 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 5.0% increase in real gross domestic product (GDP) on an annualized basis."

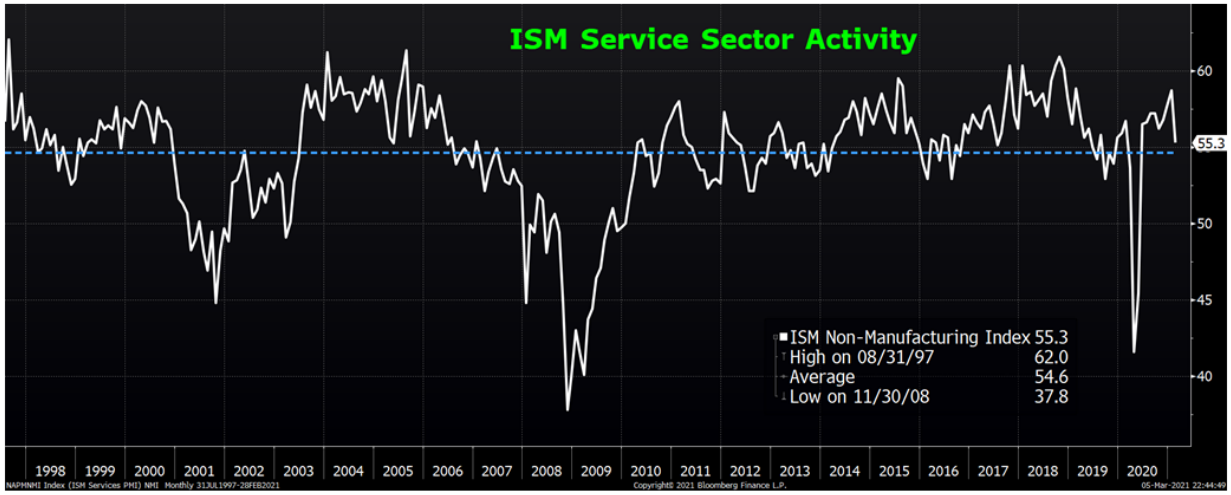


…and the surprisingly weak ISM Non-Manufacturing measure for February,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING SLIPS: 2.2% ANNUALIZED GDP GROWTH???

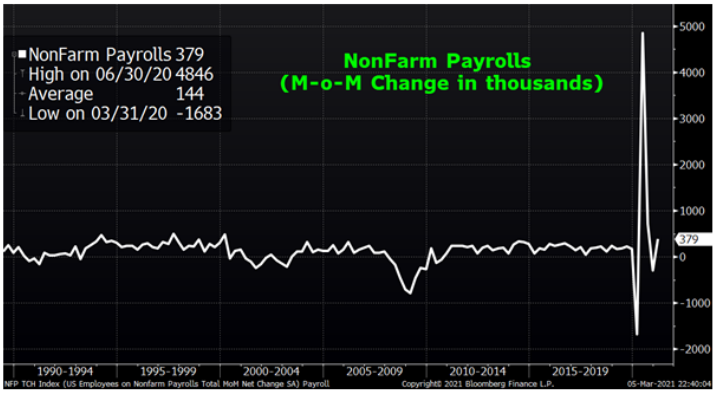
The latest read on the health of the service sector fell to a much-worse-than-expected 55.2 in February, down from 58.7 in January. The figure is still above average and suggests a growing non-manufacturing economy, but the Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.2% increase in real gross domestic product (GDP) on an annualized basis."



…seemingly an anomaly, given the very strong monthly jobs report out on Friday, which was fueled by a hefty recovery in the leisure and hospitality work force,…

THE PRUDENT SPECULATOR

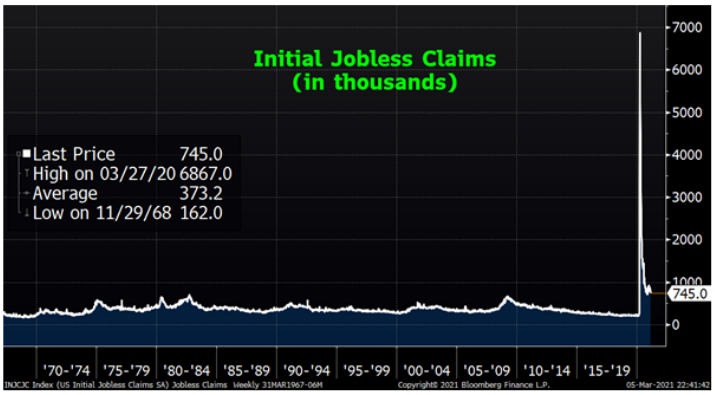
MUCH-BETTER-THAN-EXPECTED LABOR REPORT



Economists were looking for a gain of 210,000 payrolls, so the increase of 379,000 in February blew away expectations, with the struggling leisure and hospitality sector accounting for a whopping 355,000 jump in jobs during the month. There are still millions out of work but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, rising 5.3% on a year-over-year basis.

…and numbers trending in the right direction in terms of the unemployment rate and jobless claims.

LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW IMPROVEMENT

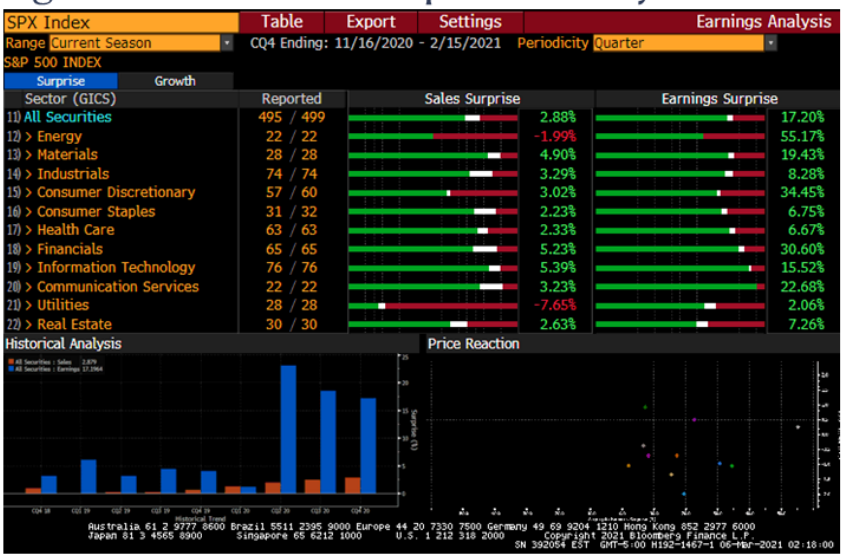


With some of the mind that the spike in jobs last month is the start of a major hiring cycle, the jobless rate for February dipped to 6.2%, continuing its improvement from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits in the latest week declined to 745,000, better than projected, and continuing jobless claims fell to 4.30 million, a new pandemic low. Of course, a massive 80.4 million unemployment claims have been filed since March 20.

Not surprisingly, we remain in the camp that an improving economy is a positive for equity prices in general and our undervalued stocks in particular, given that earnings comparisons are likely to be very favorable as we move through 2021,…

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021

Q4 earnings reporting season was terrific, relative to analyst projections that had been too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS were not so grand, but a significant rebound is expected next year.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$47.06	$171.21
9/30/2021	$44.55	$158.49
6/30/2021	$40.86	$151.84
3/31/2021	$38.74	$137.77
12/31/2020	$34.34	$118.53
ACTUAL		
9/30/2020	$37.90	$123.37
6/30/2020	$26.79	$125.28
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

Source: Standard & Poor's. As of 2.26.21

…paving the way for continued hikes in dividend payouts.

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has raised distributions over time. Per share dividends for the S&P 500 inched up in 2020, while in the latest week, General Dynamics, Albemarle, Digital Realty, Deere and EOG Resources each hiked its payout.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 3.5.21)	106	3	1	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.)	$59.72
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 3.5.21

We understand that a better economic climate brings the natural fears that the Federal Reserve will tighten monetary policy, but such an event does not appear to be on the horizon, judging by comments from Fed officials last week.

Federal Reserve Governor Lael Brainard suggested as much last week, stating, "The economy remains far from our goals in terms of both employment and inflation, and it will take some time to achieve substantial further progress. We will need to be patient to achieve the outcomes set out in our guidance."

Mr. Brainard added, "A surge in demand and any inflationary bottlenecks would likely be transitory, as fiscal tailwinds to growth early this year are likely to transition to headwinds sometime thereafter…A burst of transitory inflation seems more probable than a durable shift above target in the inflation trend and an unmooring of inflation expectations to the upside."

For his part, Federal Reserve Chair Jerome H. Powell said in an interview on Thursday, "Today we're still a long way from our goals of maximum employment and inflation averaging 2% over time." He was also asked about the recent rise in U.S. Treasury rates, to which he replied that he was not overly concerned, stating, "I would be concerned by disorderly conditions in markets or a persistent tightening in financial conditions that threatens the achievement of our goals," before

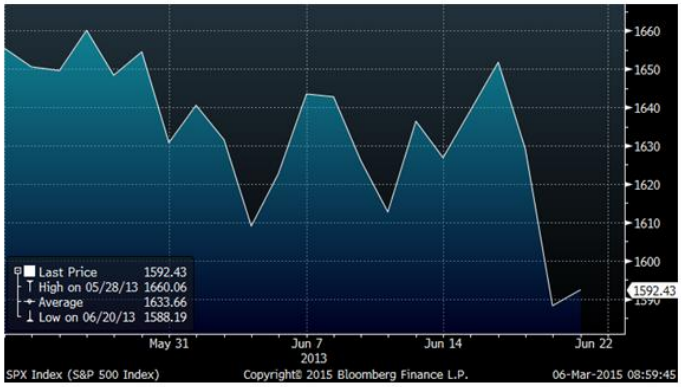
he offered that he thinks that it is “highly unlikely” that the Fed’s goal of maximum employment will be achieved this year.

Naturally, some would have preferred that Mr. Powell not had said anything at all, as the markets often have elevated volatility when uncertainties are heightened about the near-term direction of monetary policy,…

THE PRUDENT SPECULATOR

2013 “TAPER TANTRUM” WARNING

On May 22, 2013, Ben Bernanke hinted that the Federal Reserve would soon begin to taper it’s $85 billion per month in purchases of bonds and mortgage-backed securities. One month later, the S&P 500 had dropped 3.8%.



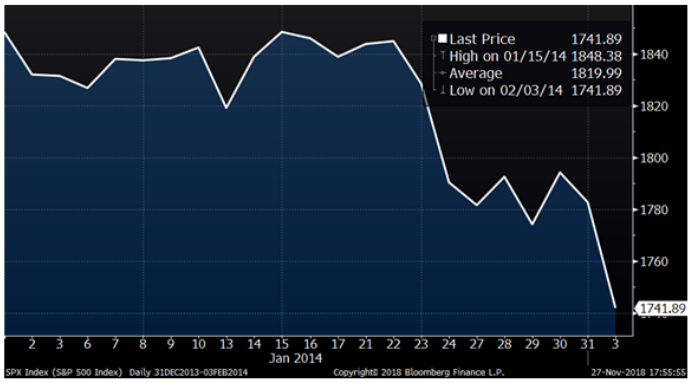
Yet, one year later, the S&P 500 had recouped those losses and then some, rising 13.6% from May 22, 2013 to May 22, 2014, even though Janet Yellen’s Fed actually started to taper by $10 billion per month in January 2014.

…even as there is relatively recent precedent that suggests that long-term-oriented equity investors need not have any tantrums.

THE PRUDENT SPECULATOR

2014 "TAPER TANTRUM" REALITY

In January 2014, the Federal Reserve reduced by $10 billion to $75 billion its monthly additions to its holdings of mortgage-backed and longer-term Treasury securities. This "tapering" coincided with a 5.8% five-week dip in the S&P.



Yet, by the end of the year, the S&P 500 had recouped those losses and then some, rising 11.4% for the full-year 2014, even though Janet Yellen's Fed actually "tapered" those bond additions all the way to zero by October 2014.

*****

It is hard to envision that the wild swings in stocks that we have been witnessing of late will dissipate any time soon, but we remain optimistic in our outlook for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

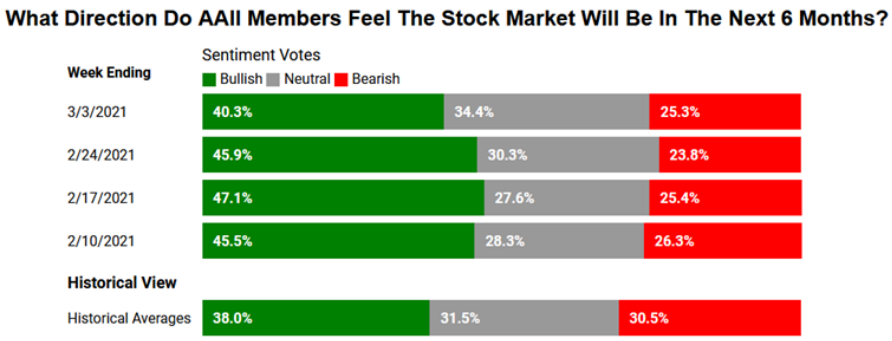
Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	20.0	15.4	1.2	2.4	2.3
ValuePlus	22.2	16.1	1.5	2.4	2.0
Dividend Income	19.5	15.1	1.1	2.5	2.6
Focused Dividend Income	20.0	15.4	1.3	2.4	2.6
Focused ValuePlus	19.2	15.6	1.6	2.5	2.3
Small-Mid Dividend Value	18.4	14.9	0.8	1.7	2.2
Russell 3000	35.5	23.5	2.7	3.8	1.4
Russell 3000 Growth	43.7	30.6	4.5	10.5	0.8
Russell 3000 Value	30.0	19.2	2.0	2.3	2.0
Russell 1000	32.6	23.0	2.9	4.1	1.4
Russell 1000 Growth	39.1	29.2	4.7	11.5	0.8
Russell 1000 Value	28.0	19.0	2.1	2.5	2.1
S&P 500 Index	31.2	22.3	2.9	4.2	1.5
S&P 500 Growth Index	35.6	27.4	5.2	9.6	0.8
S&P 500 Value Index	27.6	18.7	2.0	2.6	2.2
S&P 500 Pure Value Index	19.7	12.5	0.8	1.2	2.5

As of 03.06.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…and we note that equity market enthusiasm has been reined in somewhat,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – OPTIMISM RETREATS



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 = 7.92										
BELOW	-54.0	7.9	876	0.27%	0.24%	1.28%	1.15%	3.70%	3.31%	6.94%	6.18%
ABOVE	8.0	62.9	875	0.15%	0.13%	0.47%	0.39%	1.84%	1.58%	4.49%	4.01%
	Ten Groupings of 1751 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%	7.10%	6.33%
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%	1.03%	0.94%	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	0.17%	0.15%	0.56%	0.47%	2.27%	2.01%	4.84%	4.31%
8	16.4	22.0	185	0.18%	0.16%	0.75%	0.68%	1.95%	1.68%	5.43%	5.01%
9	22.0	29.1	165	0.08%	0.07%	0.29%	0.21%	1.89%	1.61%	4.16%	3.57%
10	29.1	62.9	176	0.24%	0.22%	0.26%	0.19%	1.41%	1.18%	2.55%	2.11%

From 07.31.87 through 3.4.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, but the latest AAII Sentiment Survey released on Wednesday evening, March 3, 2021, saw the Bull-Bear Spread contract to 15.0%, down from the widest gap of the year at 22.1% the week prior, with the average gap standing at 7.5%.

…with the most recent real-time sentiment measure in neutral territory.

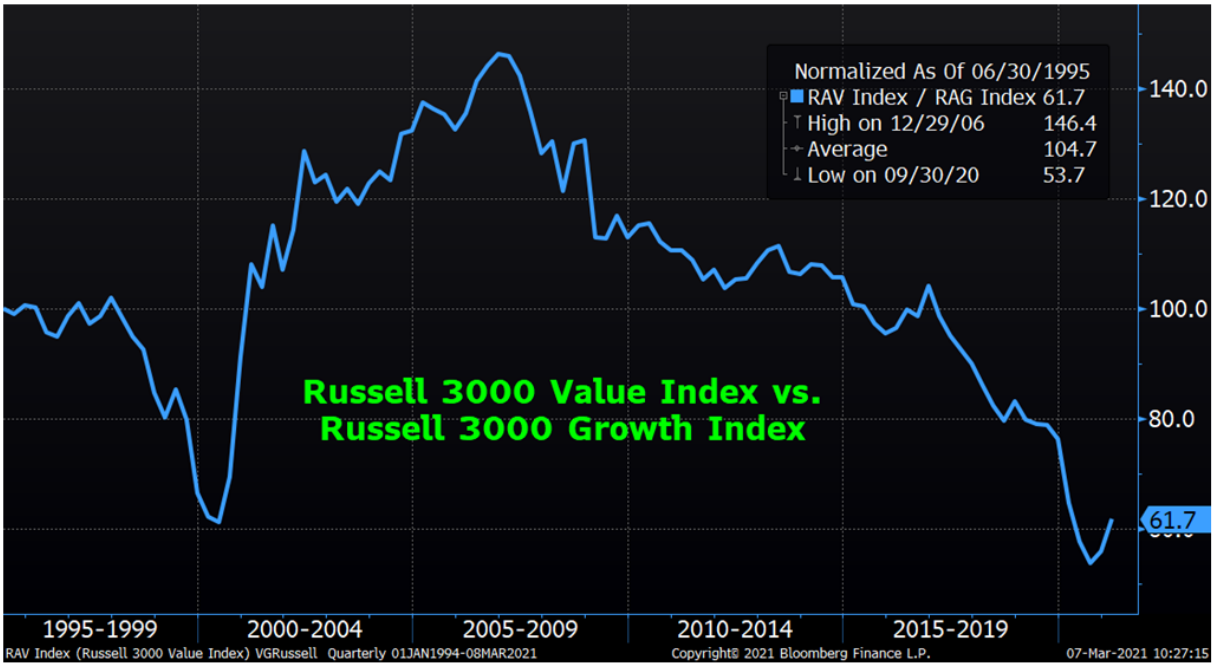
Certainly, we respect that there has been a lot of frothiness in so-called "meme" stocks, cannabis companies and digital currencies, but the *CNNMoney* Fear & Greed Index is now in the Neutral range, with overall equity market enthusiasm per this gauge of seven indicators held back by Extreme Fear in Put and Call Options, a Fear reading for Safe Haven Demand and three other neutral readings.

And for those worried that Value's recent renaissance has run its course, we note that we are merely back to levels relative to Growth seen at the height of the 2000 Tech Bubble,…

THE PRUDENT SPECULATOR

R3K VALUE "BUY" SIGNAL STILL LIKE 2000

Stocks with inexpensive financial metrics have outperformed markedly over the past eight months, but the R3K Value index relative to the R3K Growth index on a total return basis is still near 2000 levels.



…the bursting of which ushered in a terrific 7 years for those of us partial to Value stocks.

THE PRUDENT SPECULATOR

IT WOULD BE FINE IF NOW IS LIKE MARCH 2000

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

Total Returns Matrix Post March 31, 2000

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

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

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.

Broadcom (AVGO – $450.14) beat analyst expectations for fiscal Q1 2021. The semiconductor giant earned an adjusted $6.61 per share, versus the analyst consensus of $6.57. Revenue was $6.655 billion, versus the $6.62 billion that was projected, while the company's operating margin was 23%. Management attributed the top- and bottom-line beats to the company's role in "accelerated digital transformation," amid an environment that included seasonal-peak wireless component demand, data center growth and infrastructure spending, particularly by the telecom companies.

CEO Hock Tan commented on the company's success, "Our strategy of focusing on core accounts continues to perform well as we cross-sell our portfolio of software tools. In other words, our software portfolio continues to perform as we had planned and continues to be on track with our long-term financial model for organic software revenue growth of around mid-single-digit percentage year-over-year. And that's something we expect to continue to see in Q2."

For fiscal Q2, AVGO expects 13% year-over-year revenue growth, which roughly pencils out to $6.5 billion. Networking revenue is expected to up y-o-y thanks to cloud and telecom demand, while the wireless segment should see double-digit growth. Semiconductor revenue was up 17% y-o-y in Q1, which Mr. Tan expects to come in "similarly" in Q2.

While Broadcom maintained its $41 billion debt load, cash and equivalents grew from $7.6 billion to $9.6 billion sequentially. AVGO shares turned in a strong 2020, rising in price by more than 40%, but the stock has yet to take off this year. We think that the strong demand and cost discipline are underappreciated, with AVGO metrics remaining inexpensive, including a forward P/E around 16.6 and free cash flow yield near 7%. AVGO also sports a very generous dividend yield of 3.2%. Our Target Price has been raised to $515.

Shares of memory chip maker **Micron Technology** (MU – $88.93) stumbled last week, even after the company offered updated and upbeat fiscal Q2 2021 guidance. Compared with the January revenue range of $5.6 billion to $6.0 billion, Micron now expects the quarter's revenue to come in between $6.2 billion and $6.25 billion. Adjusted EPS guidance also received a sizable bump to a range between $0.93 and $0.98 (vs. a range of $0.68 to $0.82 previously).

At the Morgan Stanley Technology, Media and Telecom Conference, held virtually, SVP David Zinsner said, "On the DRAM side, volume is definitely better than we anticipated coming into the quarter. In addition, ASPs are better than we anticipated coming into the quarter. So those two are certainly driving upside on the DRAM front. On the NAND front, I would say volume is definitely running more positively than we expected. ASPs are generally somewhat in line with our expectations coming into the quarter. So the real factors were really DRAM volume in ASPs and NAND, mostly volume…I'd say on the cost side, it's probably going to be a little bit better, but that probably didn't move the needle as much as the pricing on the DRAM front did in terms of gross margin. So really, the lift we saw on the margin front was really for ASPs in DRAM. Then those two things just kind of translate to the better EPS."

Micron's final Q2 report is expected to be delivered after the market closes on March 31 and given the fairly tight ranges in the guidance update, we don't expect much wiggle room related to Q2 results. However, we suspect that the outlook for Q3 and beyond will have an outsized impact, and we'll be looking for insight on the supply and demand dynamics as the world begins to emerge from the damaging effects of the pandemic. Even though shares are above the all-time high previously set in the Tech Bubble, we think that the business is on a more solid foundation and the stock still has room to run. We believe that Micron can continue to grow its earnings (the current consensus EPS estimate for fiscal 2023 is north of $9.00, compared to $2.83 in 2020), but we are also watching that portfolio weights don't exceed our comfort level. Our Target Price for MU has been boosted to $103.

Shares of **Hewlett Packard Enterprise** (HPE – $14.40) reported fiscal Q1 2021 earnings per share of $0.52 (vs. $0.41 est.) and revenue of $6.83 billion (vs. $6.74 billion est.). The information technology solutions company expanded gross and operating margins were a result of strength across the entire business, and the Intelligent Edge (computing for Internet of Things data-driven operations) business grew 11% year-over-year and for the third straight quarter sequentially. Switching also grew in the low-single digits and the Aruba SaaS offering is now a significant contributor to HPE.

HPE CEO Antiono Neri commented "From a top line perspective, we are pleased with the momentum we saw in Q1. And whilst we continue to see gradual improvement, we remain prudent as we and the rest of the world continue to navigate the pandemic and related macro uncertainties. More specifically for Q2 '21, we expect revenue to be slightly better than in line with our normal sequential seasonality of down mid-single digits from Q1. This still represents double-digit year-over-year growth from the $6 billion trough of Q2 of fiscal year '20. Now with respect to supply chain, I would like to remind everyone that we exited Q4 of fiscal year '20 with higher levels of inventory to protect against the risk of a short-term supply squeeze and address improved customer demand. With these actions and other proactive steps that we've taken in Q1, we do not expect any meaningful impacts on our supply chain in the near term. We are now turning our attention to working on strengthening our inventory supply for the second half of fiscal year '21 as we see improved levels of demand, recognizing also that we have entered an inflationary environment for memory components."

Mr. Neri concluded, "For Q2 '21, we expect GAAP diluted net EPS of $0.02 to $0.08 and non-GAAP diluted net EPS of $0.38 to $0.44. Additionally, given our record levels of cash flow this quarter and raised earnings outlook, I am very pleased to announce that we are also raising fiscal year '21 free cash flow guidance from our SAM guidance of $900 million to $1.1 billion to a revised outlook of $1.1 billion to $1.4 billion, a $250 million increase at the midpoint. Overall, Antonio and I are proud of these results. We have navigated well through unprecedented challenges in the last fiscal year and have started the new fiscal year strong out of the gate. We saw significant acceleration and customer demand in our Intelligent Edge business and the order pipeline, and our HPC MCS business remains robust. Our core business of Compute and Storage revenues are stabilizing with improved margins, and our as-a-service ARR continues to show strong momentum aligned to our outlook."

HPE currently has $4.75 billion in an undrawn revolving credit facility and $4.2 billion of cash on hand, which equates to nearly $9 billion of liquidity. Of course, we are still early in HPE's transformation, but we think the headwinds are finally starting to die down and the analyst earnings estimates seem to reflect that. In 2020, EPS was $1.35, with the bottom line projected to hit $1.80 this year and around $2.00 by 2023. That pencils out to a forward P/E below 8, while the dividend yield is nearly 4%. We believe that HPE is headed in the right direction and we like the company's diverse offerings, including 5G networking, and potential to grow subscription revenue. Our Target Price has been bumped up to $18.

High-end department store **Nordstrom** (JWN – $35.07) earned $0.21 per share in fiscal Q4 2021 (vs. $0.12 est.). JWN had internet-propelled sales of $3.55 billion, versus the $3.49 billion estimate. Shares retreated after the report, but we think there was a lot to like about the quarter.

Chiefly, the company continued to benefit from online sales for both the Nordstrom and Nordstrom Rack brands, and the holiday gift selections highly popular with customers. Nordstrom's Nordy Club customers, which represent four in ten shoppers, account for two-thirds of sales volume and shop more frequently than non-Club members.

CEO Erik Nordstrom said, "While we're pleased with our improving top line trends, we are not satisfied with our bottom-line results. Since reopening stores in June, we faced inventory constraints throughout most of the year. Heading into the holidays, we increased our receipt plans to meet anticipated customer demand. However, we experienced delays in inventory flow that resulted in higher inventory levels at the end of the year. Additionally, higher COVID related labor and shipping costs contributed to earnings flow-through coming in below our expectations. We are currently taking actions to realign our inventory position, and Anne will go into additional detail on our execution and action plans. An important component of our strategy is to increase convenience and create personal connections with customers. During the holiday season, we continued to scale digital and physical capabilities to offer greater access to our services. With pickup options at roughly 350 Nordstrom stores, Racks and Nordstrom locals, about 10% of online orders were picked up in stores. Additionally, roughly 30% of online orders were fulfilled from stores, including Racks, which were recently enabled with this capability. These capabilities allow us to increase delivery speed, customer spend and inventory efficiencies. We're increasing our connections with customers by strengthening our digital capabilities to offer them discovery and inspiration."

Mr. Nordstrom concluded, "As we head into 2021, our team is dedicated to executing our strategy across our 3 areas of highest priority: First, winning in our most important markets. We're continuing to scale our market strategy by doubling our exposure from 10 to 20 markets by the end of March, making up 75% of our business…We're focused on growing our share of the price-oriented customer segment. Our efforts are underway as we recently repositioned 70 stores by reimaging the merchandising offering and store experience; and third, increasing the velocity of our digital business, we're focused on more effectively translating the heritage of service that defines us in this digitally connected world…These strategic priorities are enabled by our digital-first merchandising approach. We are extending beyond our traditional wholesale model to increase selection, reduce risk and share in the benefits with our strategic brand partners."

Of course, Q4 wasn't as terrific as Q3 was, but we think JWN is heading in the right direction, though we are not overly surprised to see the skyrocketing shares take a breather. With two trims of our ownership stake under our belts already this year and a full position size still in our broadly diversified portfolios, we have full confidence in JWN's ability to execute and believe that there's plenty of cash waiting to be spent as folks receive vaccines and the high infection rates that followed the holiday season retreat. We think the online trends are permanent and the company's top-flight service and generous return policy will help in making for a low-stress shopping experience. The dividend remains discontinued to conserve cash and the company didn't offer detailed guidance, but JWN does expect revenue to come in around $13.4 billion in fiscal 2022, which just started. Our Target Price presently resides at $44.

General merchandise discount store chain **Target** (TGT – $172.61) announced that it earned $2.67 in Q4 (a company record) (vs. the $2.49 estimate) as sales grew 20.5% to $28 billion. Size of the average ticket jumped 13.1% while same-day and digital sales respectively grew 212% and 118% year-over-year. Despite the strong results, shares slid 6% over the past week as sales growth decelerated for a second straight quarter, after many raced to stock their homes and pantries with essential items in Q2 of 2020.

COO John Mulligan commented on the distinctiveness of 2020, "In a normal year, we just spent months preparing for the traditional Q4 shopping spike. But in 2020, our peak season started in March. And after months of moving record volume, we have become increasingly efficient in how we managed high levels of demand. So when the holidays actually did arrive, we leaned into what was already working. We sent more inventory to stores than ever to prepare for an earlier holiday rush. We front-loaded those deliveries with the seasonal merchandise guests would expect so our stores would be stocked and ready, and we continue prioritizing essential products, like cleaning supplies and health care items, so we could keep meeting the pressing needs of our guests."

He continued, "The flexibility of our supply chain set up our stores to play an essential role in our communities. Because we could restock shelves quickly, guests could count on Target for what they needed, whether they came inside or shopped online. And when our digital business picked up last spring, our fulfillment operation went into high gear. Up to that point, our same-day fulfillment services had already been rolled out nationwide. Millions of guests were loving them because they're fast and easy. We always love them because they're incredibly efficient. Without the shipping expense, these orders look much more like a store sale than a traditional online transaction, costing on average 90% less than if we'd shipped it from a warehouse. And at the start of 2020, our same-day sales were growing at a healthy clip. Come spring, when consumers saw the need for more contactless ways to shop, those services exploded. And we had the infrastructure in place to grow alongside demand."

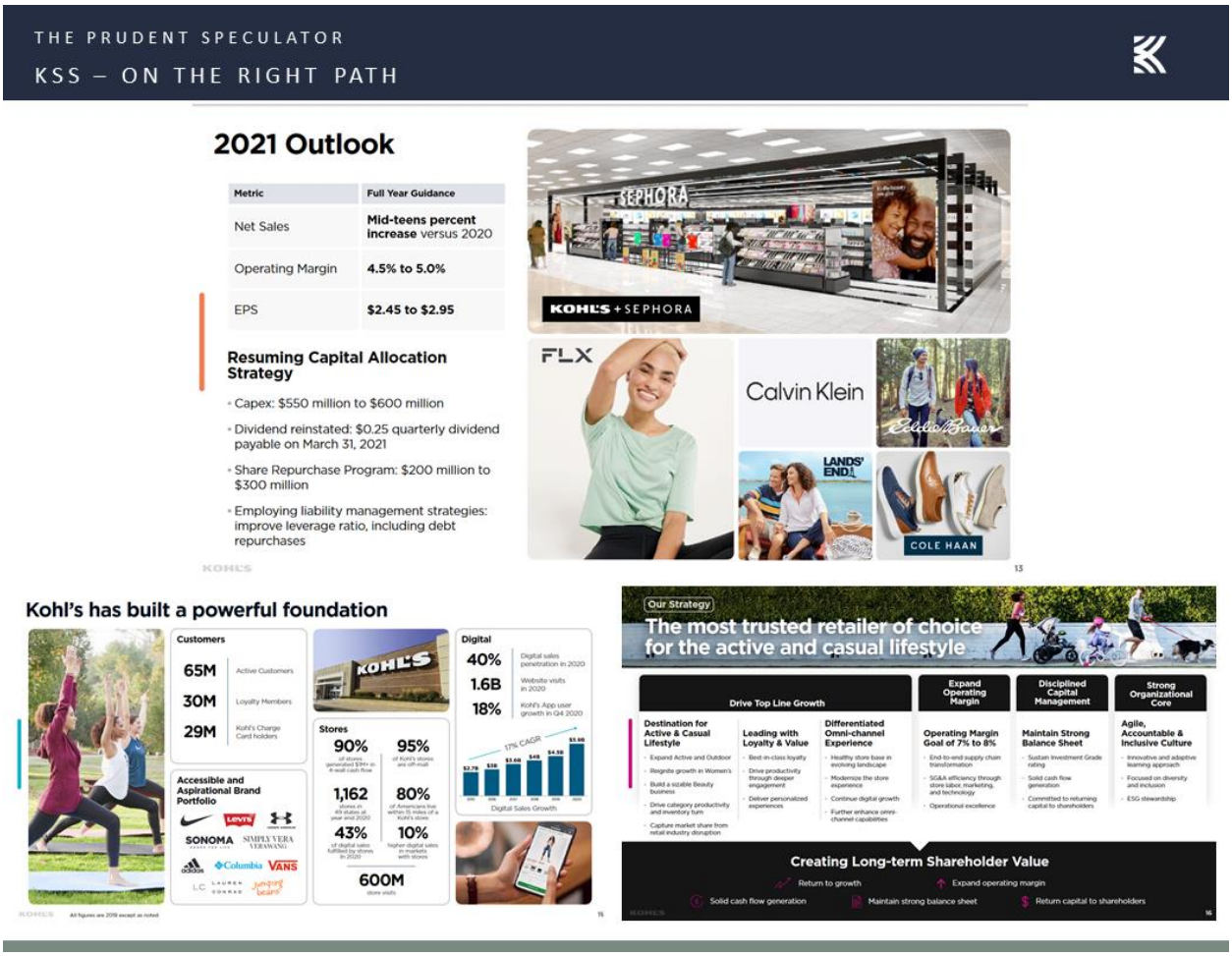
We appreciate how Target's investments in recent years allow the company to use its proximity, with nearly 1,900 stores within 10 miles of the vast majority of U.S. consumers, to elevate the convenience it is able to offer. While we don't expect the top-line growth experienced throughout the pandemic to persist, we like Target's position to benefit from discretionary purchases as the economy continues to open. Management has resumed share repurchase activity, while it anticipates another dividend increase later this year. For now, the yield is 1.6% and our Target Price stands at $219.

Department store chain **Kohl's** (KSS – $$55.59) announced last week that it earned $2.22 in Q4 on $5.9 billion of sales. The bottom-line result was vastly better than the $0.98 analysts had expected, while sales were roughly in line. Strong cost management contributed to an 8% decrease in SG&A expense, while digital sales grew 22% year-over-year (now accounting for 42% of the total). Management credited at least 2 million new unique customers (a third of which are Millennials) shopping at Kohl's as a result of the Amazon Returns program, and the company expects to launch Sephora in August (200 stores within a store are expected this year, with 850 by 2023). Working capital management continues to improve as inventory declined

27% versus Q4 of 2019 and inventory turnover reached a 10-year high. The firm boosted its cash position to $2.2 billion at quarter end, compared to $723 million a year ago.

CEO Michelle Gass commented, “Our organization has continued to navigate through the pandemic successfully. Our business is gaining momentum, and our strong cash-generating model has proven resilient. We ended the year with $2.3 billion in cash, up more than $1.5 billion from last year…Looking ahead, I am extremely confident in our outlook. We are executing with a clear strategic plan to continue building on the momentum in our business with an intense focus on improving our profitability. We have delivered strong initial progress against our strategy in the past 2 quarters, and we are positioned to deliver a multiyear improvement in sales and operating margin.”

The company will be resuming its capital allocation strategy in 2021, which includes increasing capital expenditures, reinstating the dividend ($0.25 per share per quarter), resuming share repurchases of $200 million to $300 million, and employing liability management strategies. Management now expects sales to increase in the mid-teens percentage range with EPS in the range of $2.45 to $2.95 for all of 2021.



We are delighted to see the retailer return to EPS growth in the quarter, and think management is moving in a solid direction to improve inventory, grow the digital channel, control costs and strike contracts with solid brands like Sephora and Calvin Klein. We continue to like that KSS boasts one of the strongest balance sheets of its peer group and look forward to once again collecting a dividend. In view of the recent agitation from a group of activist shareholders, we discussed last week our thinking that management is doing a fine job and we believe the latest numbers, outlook and commentary illustrate the point. We've lifted our Target Price for KSS to $65.

Shares of **Kroger Co.** (KR – $34.47) rallied 6.9% amid the volatile week as the company produced strong results in Q4. The grocer delivered $0.81 of earnings per share (17.5% better than the $0.69 estimate), up 42% compared to the same quarter last year. Total sales were $30.7 billion, representing growth of 10.7% excluding fuel, driven by continued strength in grocery, produce and meat, while digital sales soared 118% during the quarter.

CEO Rodney McMullen stated, "I am incredibly humbled by the strength of our associates and what we continue to accomplish together. Our customers are at the center of everything we do and we will continue to serve them as we have since the beginning of the pandemic, through our leadership in food and as a health partner, providing COVID-19 testing and vaccines…Kroger continued to grow market share during the quarter. Our ability to meet our customers' evolving needs is a testament to our deep competitive moats, disciplined investments in our increasingly robust digital capabilities, as well as our associates' relentless focus on our customers. We finished fiscal year 2020 with strong sales and earnings, as heightened demand for fresh, convenient food and meal solutions across modalities, including in store, pick up and home delivery, continued throughout the fourth quarter."

Despite the obstacles presented for most businesses in 2020, we are pleased the grocers (Kroger in particular) in our portfolio perform at a high level. Costs from wages are increasing as the firm bumps the average wage across the enterprise, but we expect strong performance from in-house brands and further digital penetration to offset some of the pressure. We continue to appreciate the defensive characteristics that KR offers our portfolios as shares now trade at 12.4 times expected EPS for 2021 and offer a dividend yield of 2.1%. Our Target Price for KR, which boasts Warren Buffett's Berkshire Hathaway as a big shareholder, has been elevated to $43.

Volatile shares of discount retailer **Big Lots** (BIG – $62.05) needed a 10% rally off the Friday low to end the trading week with only modest losses. The company announced sales and earnings for fiscal Q4 that were mostly in-line with analyst expectations (after adjusting for recently issued guidance by management), with EPS of $2.59 as comparable sales for the period increased 7.9% to $1.7 billion. Full-year results were the strongest ever, with comparable sales growth of 16.1% and $7.35 per share in adjusted earnings. Home spending trends remained strong as multiple bedding-related products experienced double-digit growth, while furniture spending rose 15% in the period.

CEO Bruce Thorn commented, "As we enter 2021, there are reasons to be hopeful that the global pandemic that has upended so many things will recede and that we will be on a path to greater stability as the year progresses. However, we will not take our eye off the ball with regard to

making our stores and workplaces as safe as possible, and we will continue to work with clear and rigorous safety standards, social distancing and cleaning protocols in all of our stores and workplaces. During the course of 2020, we incurred more than $50 million in COVID-related expenses, including health and safety measures as well as incremental pay and bonuses to stores and distribution center associates. We expect to incur further expense in 2021, albeit at a lower level. In addition, we are encouraging, supporting and facilitating our associates to get vaccinated as soon as they have the opportunity."

Turning back to the recently-ended quarter, he continued, "We saw 2 distinct levels of performance: strong performance in November and in January when we had more appropriate inventory levels; and what I would refer to as a solid performance in December, where we continue to see underlying strength in our business but were too sold through on our Christmas seasonal assortment to maintain the double-digit comps that marked the balance of the year. Traffic was also clearly softer in December, driven by COVID-19-related stay-at-home orders and different consumer shopping patterns caused by the pandemic. However, our core business continued to perform well, and following Christmas, for the balance of the quarter, comp growth returned to double-digit levels, benefiting from broad-based category strength and new stimulus payments that began to flow in early January. As our inventory levels were sold through, we were able to navigate through the holiday period with fewer promotions than last year. This reduction in markdowns significantly mitigated the pressure felt from increased spot freight rates and higher supply chain charges we incurred."

BIG remains inexpensive at 10.9 times earnings expected for 2021, despite rallying over 19% since our last commentary in January. As such, we like that management repurchased 1.6 million shares during Q4 at an average cost per share of $46.38. A hefty $327 million (the total market capitalization is just $2.3 billion) remains on the buyback as of the end of the quarter under its previously announced $500 million share repurchase authorization. The dividend yield is now 1.9% and our Target Price has been nudged upward to $80.