Market Commentary Monday, March 22, 2021

March 21, 2021

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – Sold a Portion of CAT for all Four Newsletter Portfolios
FOMC Meeting – "Support for the Economy for as Long as it Needs"
Econ Data – Mixed Numbers Last Week
2021 Econ Outlook – Conference Board Raises its GDP Forecast to 5.5% Growth
Interest Rates – Rising Bond Yields Bad for Fixed Income; Stocks Have Performed Well Either Way
Week in Review – Equities Take a Breather
Corporate Profits – EPS Expected to Soar this Year
Sentiment – AAII Optimism Near a 2021 High
Fund Flows – Folks Liking Stocks a Bit More…for a Change
Valuations – Stocks Still Attractive from an Income Perspective
Dividends – Payouts Have Risen Over Time
Stock News – Updates on PNC, SNA, FDX & JBL

Market Review

A little housekeeping before this week's missive. As discussed on our recent *Sales Alert,* we sold 94 and 22 shares of **Caterpillar** (CAT – $225.29) respectively held in TPS Portfolio and Buckingham Portfolio at $229.6001 on Wednesday, March 17.

We will use that price to close out 46 and 59 CAT shares respectively held in Millennium Portfolio and PruFolio.

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"We will continue to provide the economy the support that it needs for as long as it needs," proclaimed Jerome H. Powell at the press conference that followed the Federal Open Market Committee's (FOMC) decision on Wednesday to keep the target for the Federal Funds rate at a range of 0% to 0.25%.

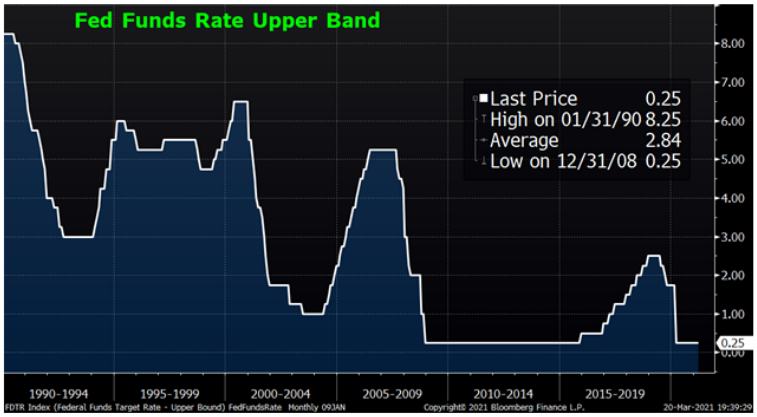
THE PRUDENT SPECULATOR

ACCOMMODATIVE FEDERAL RESERVE FOR AS FAR AS THE EYE CAN SEE

FOMC Participants' Fed Funds Rate Target Level Number with each projection				
Midpoint of Target Range	2021	2022	2023	Longer Run
3.000				2
2.875				
2.750				1
2.625				
2.500				8
2.375				1
2.250				4
2.125				
2.000				1
1.875				
1.750				
1.625				
1.500				
1.375				
1.250				
1.125			2	
1.000				
0.875			3	
0.750				
0.625		1	1	
0.500				
0.375		3	1	
0.250				
0.125	18	14	11	
0.000				

Source: Federal Reserve, March 17, 2021

Projections updated last week from Jerome H. Powell & Co. confirmed again what the Federal Reserve made quite clear on August 27, 2020: The Fed is likely to keep interest rates lower for longer to support the economy, even if it means that inflation overshoots its 2.0% target for a period of time.



Source: Bloomberg

The FOMC also said that it will maintain its program to increase its holdings of U.S. Treasury securities at the rate of $80 billion each month and agency mortgage-backed securities by $40 billion per month as the Fed retained its highly accommodative monetary stance,…

FOMC STATEMENT: 3.17.21

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

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak. Inflation continues to run below 2%. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

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

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

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

…despite a significant boost to its 2021 economic outlook.

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

The Fed dramatically increased its consensus projection for a massive U.S. economic recovery in 2021, taking its GDP forecast for real (inflation-adjusted) growth sharply higher to 6.5%, up from a 4.2% estimate just three months ago. And, with forecasts for growth in 2022 and 2023 remaining relatively modest, Jerome H. Powell & Co. will likely leave the Fed Funds rate near zero through 2023.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2021

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
December projection	4.2	3.2	2.4	1.8	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.0	0.5–5.5	2.5–4.0	2.0–3.5	1.6–2.2
Unemployment rate	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
December projection	5.0	4.2	3.7	4.1	4.7–5.4	3.8–4.6	3.5–4.3	3.9–4.3	4.0–6.8	3.5–5.8	3.3–5.0	3.5–4.5
PCE inflation	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
December projection	1.8	1.9	2.0	2.0	1.7–1.9	1.8–2.0	1.9–2.1	2.0	1.2–2.3	1.5–2.2	1.7–2.2	2.0
Core PCE inflation[4]	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
December projection	1.8	1.9	2.0		1.7–1.8	1.8–2.0	1.9–2.1		1.5–2.3	1.6–2.2	1.7–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0
December projection	0.1	0.1	0.1	2.5	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1–0.4	0.1–1.1	2.0–3.0

Source: Federal Reserve, March 17, 2021

Chair Powell added at his press conference, "The economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved," the former goal hard to argue with, given the latest numbers on the labor market.

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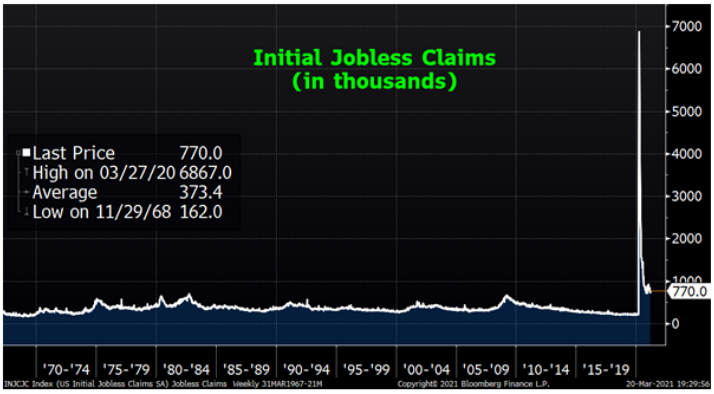
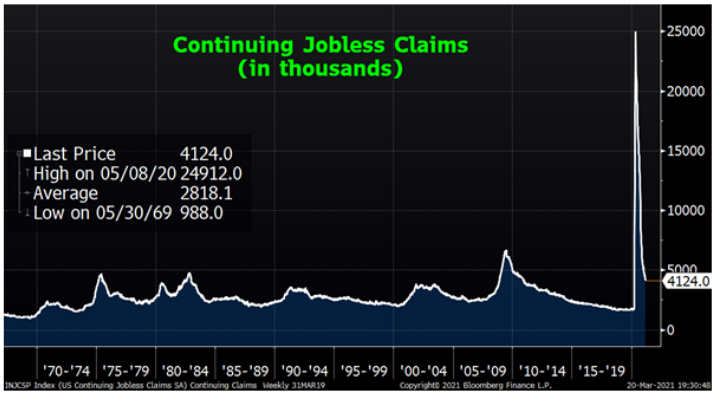
MORE FIRST-TIME FILINGS BUT FEWER CONTINUING CLAIMS





The jobs market weakened in the latest week, with new applications for unemployment benefits climbing to a seasonally adjusted and worse-than-expected 770,000 for the period ended Mar. 13, up 45,000 from the week prior. Conversely, continuing jobless claims filed through state programs dropped by 20,000 to a seasonally adjusted 4.12 million, a new pandemic low. Of course, 81.9 million unemployment claims have been filed in the last 52 weeks.

Of course, data on the health of East Coast manufacturing out last week was terrific,…

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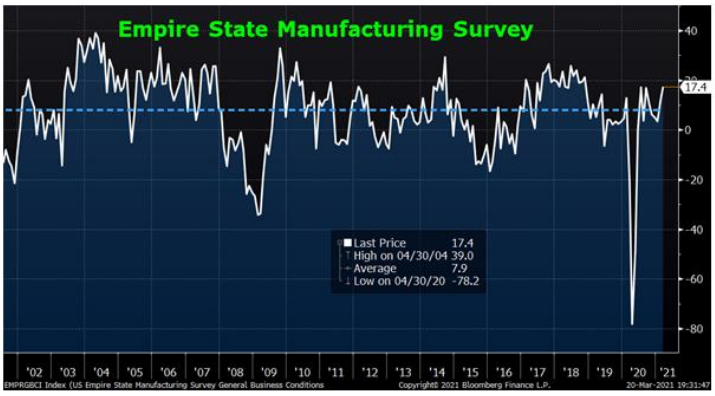
EAST COAST FACTORY ACTIVITY SUPERB IN MARCH



The Empire State gauge of manufacturing activity in the New York area hit its highest level in eight months in March, rising to 17.4 versus 12.1 in February, well above average for this business conditions index. The Philadelphia Fed's March measure of manufacturing activity in the mid-Atlantic region rocketed higher to an extraordinary 51.8 reading, compared to 23.1 in February, with the tally the highest in nearly 50 years.

…though housing numbers retreated from recent post-financial-crisis records,…

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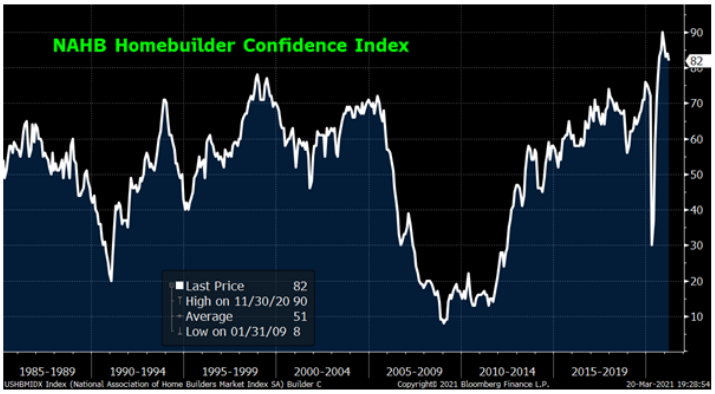
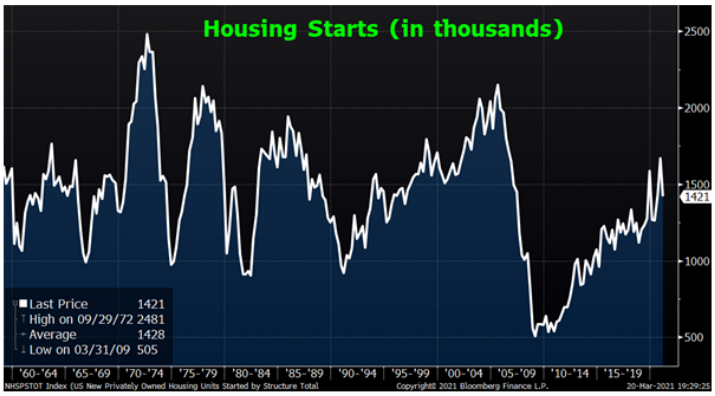
HEALTHY HOUSING STATS





The National Association of Home Builders' monthly confidence index for March pulled back to 82, still a sky-high level, even as it does mark a retreat from November's record tally of 90 on the 35-year-old gauge. No doubt, record low mortgage rates are supporting the housing market, but bad weather in February caused builders to start construction of new homes at a seasonally adjusted annual pace of 1.42 million, about in line with the long-term average.

…as did the monthly (but not yearly) change in retail sales.

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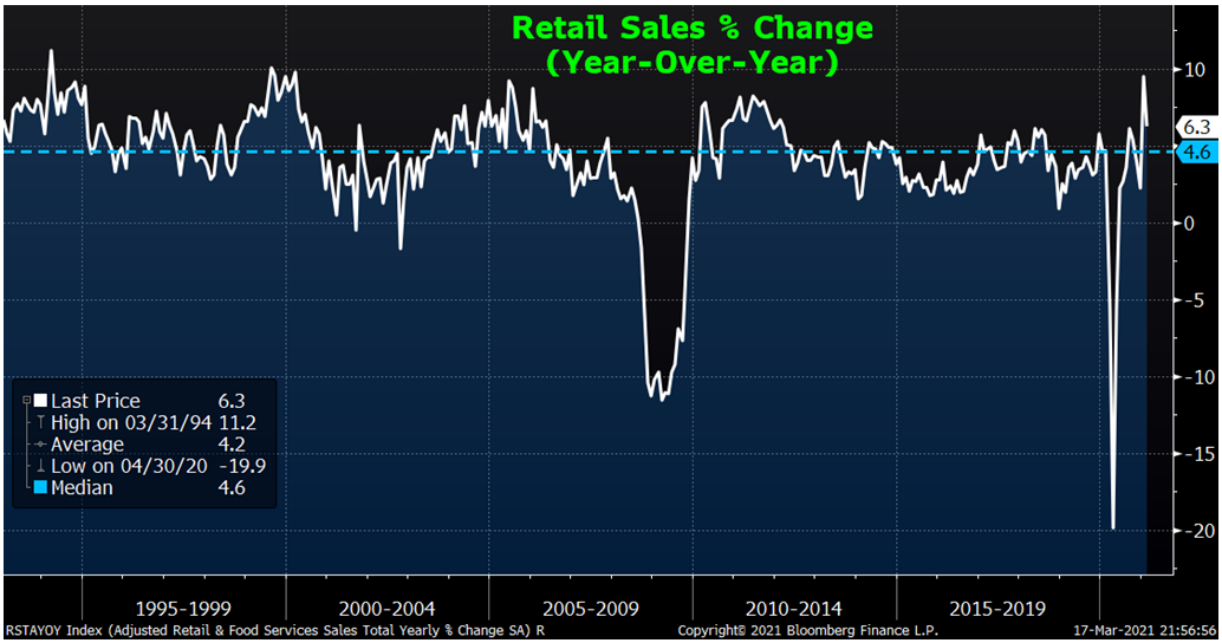
POCKETBOOKS STILL OPEN: MONTHLY DIP BUT ROBUST Y-O-Y SALES

Many shoppers in between government stimulus checks, retail sales declined 3% in February from January's massive and revised 7.6% uptick, even as the year-over-year change was still a very-healthy 6.3%, with gasoline and grocery purchases climbing month-over-month.



No doubt, the latest round of government stimulus will goose the economy as we move forward, so despite continued concerns on the health front,…

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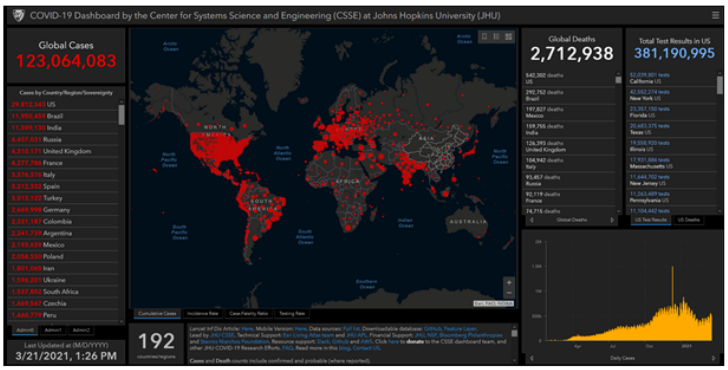
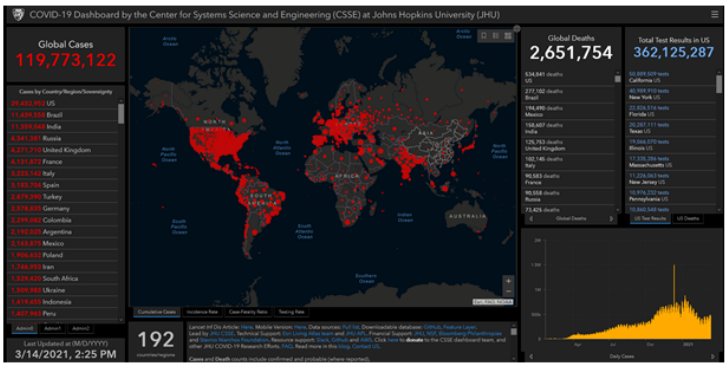
COVID-19 GLOBAL CASE AND MORTALITY RATES





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

Given that more than 2.7 million have lost their lives around the world, with 542,000 of those in the U.S., there isn't much positive to say health-wise about the COVID-19 Pandemic, especially as the increase in the latest week's global new diagnoses has moved back above 3 million. The rise in weekly fatalities was "only" 61,000, down from more than 80,000 a month or so ago, while Italy and France have imposed new lockdowns, officials are worried about another surge in cases in the U.S. and more contagious virus strains are making their way around the world. Vaccinations (the U.S. administered 2.5 million doses a day last week) are rising, though!

…GDP outlooks are being ratcheted higher every day, with the Conference Board boosting its forecast for full-year U.S. growth to 5.5%.

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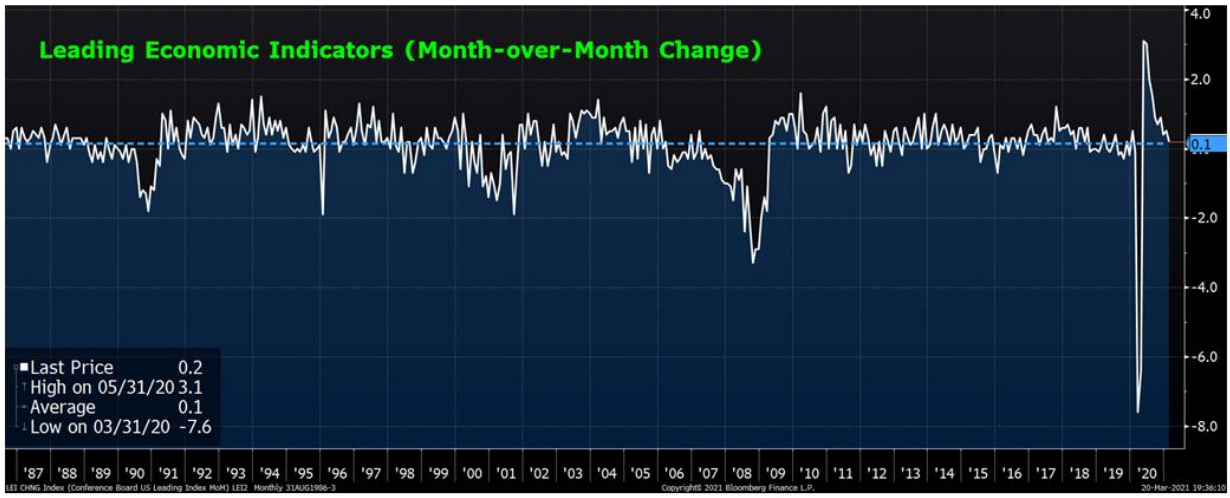
LEI STILL POSITIVE – 5.5% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index edged up 0.2% on a month-over-month basis in February, down from a 0.5% increase in January. The keeper of the metric stated, "The acceleration of the vaccination campaign and a new round of large fiscal supports are not yet fully reflected in the LEI. With those developments, The Conference Board now expects the pace of growth to improve even further this year, with the U.S. economy expanding by 5.5% in 2021."



Not surprisingly, the financial markets are starting to price in the stronger economy, as the yield on the 10-Year U.S. Treasury has moved markedly higher,…

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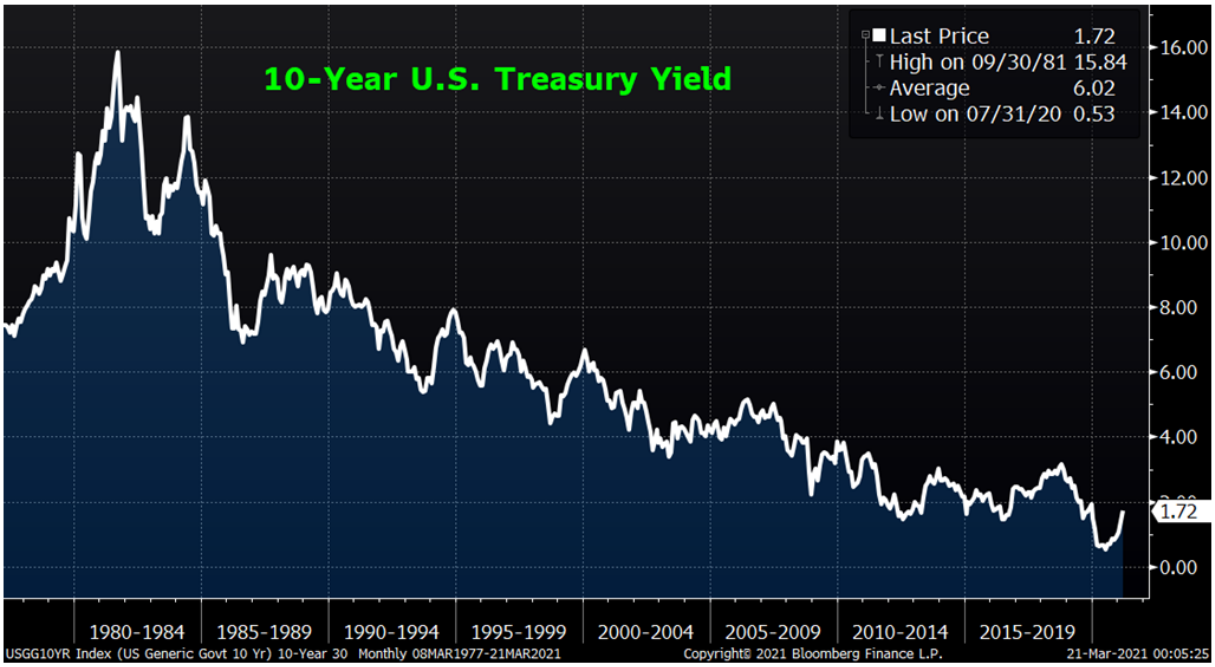
INTEREST RATES CAN MOVE IN BOTH DIRECTIONS

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 tripled over the last seven-plus months, even as a 1.72% yield is still extraordinarily low.



…causing big losses for some fixed income investors,…

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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-plus months have suffered a 20.5% loss...on a bond fund!

…and producing handsome returns for equity prices, especially those of the Value variety,…

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NOT A GREAT WEEK BUT VALUE CONTINUES TO OUTPERFORM

Equities offered a reminder last week that prices move in both directions, with all of the major market averages in the red. Of course, there has been a massive rally off the March 23, 2020 lows.

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
-0.22	-3.97	-0.91	1.06	7.99	9.12	10.34	9.54	15.07	Bloomberg Barclays Global-Aggregate Bond
-0.28	-3.61	-2.53	-3.01	2.56	4.26	10.75	14.94	16.90	Bloomberg Barclays US Aggregate Bond
-0.45	7.12	24.22	28.81	79.32	65.98	31.97	42.05	108.63	Dow Jones Industrial Average
-0.94	7.67	26.31	32.51	81.71	68.59	28.45	33.19	73.71	New York Stock Exchange Composite
-0.99	-0.38	15.64	20.70	85.56	74.80	61.89	74.79	157.38	Russell 3000 Growth
-0.95	**11.43**	**31.98**	**39.84**	**84.48**	**69.48**	**28.69**	**33.51**	**74.44**	**Russell 3000 Value**
-0.97	5.31	23.44	29.76	86.22	73.48	46.30	54.99	115.19	Russell 3000
-0.67	10.25	31.40	41.41	98.69	82.56	40.26	47.30	97.16	S&P 500 Equal Weighted
-0.74	4.55	20.45	25.55	77.92	65.25	43.37	52.71	110.59	S&P 500
-0.64	-0.15	14.01	18.86	78.41	67.68	53.21	65.66	140.03	S&P 500 Growth
-0.85	**9.87**	**28.36**	**33.74**	**74.55**	**59.64**	**30.11**	**36.27**	**76.73**	**S&P 500 Value**
-0.65	-1.48	15.57	21.33	87.59	76.13	42.90	45.25	114.28	S&P 500 Pure Growth
-1.08	**23.41**	**52.74**	**69.75**	**128.04**	**107.75**	**24.42**	**24.30**	**67.53**	**S&P 500 Pure Value**

As of 03.19.21. Source Kovitz using data from Bloomberg

…despite the breather that was taken last week.

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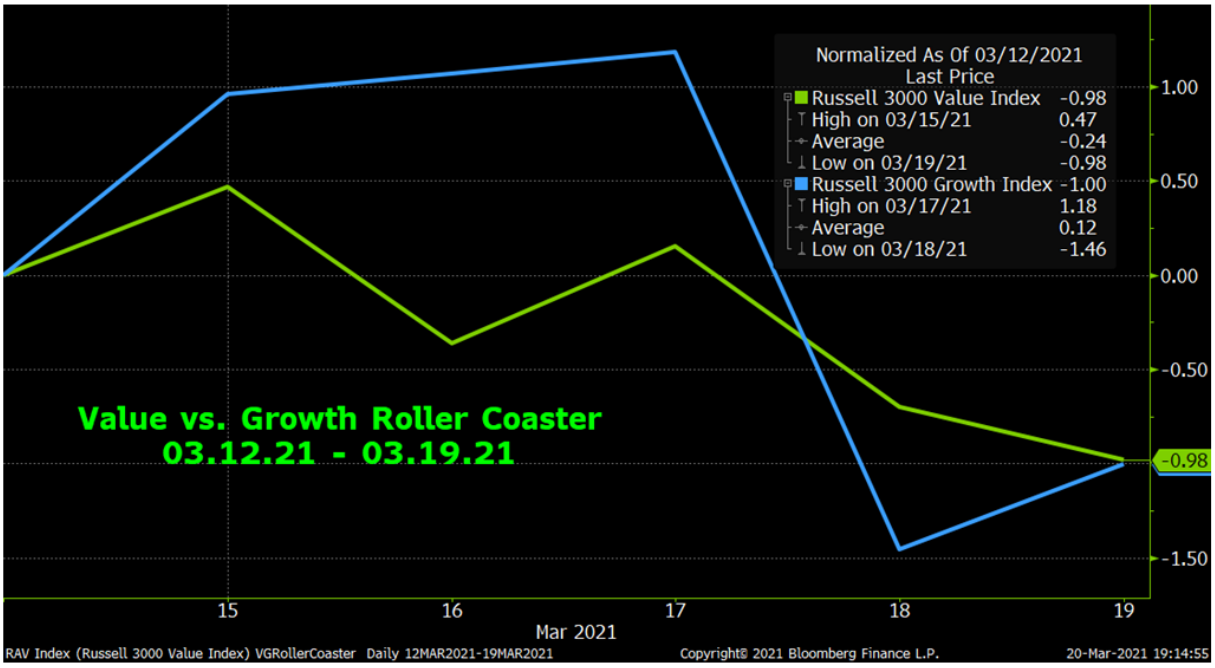
VALUE VS. GROWTH COASTERS END LOWER FOR THE WEEK

It was again a divergent a week in term of daily moves, with early gains in the week for the Russell 3000 Value and Growth indexes giving way to losses that left both benchmarks down 1% or so for the full five days.



Certainly, we are not surprised to see Value stocks outperforming, given how they have fared previously coming out of recession,…

VALUE STOCKS HAVE OUTPERFORMED COMING OUT OF RECESSION

U.S. Recession Trough (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Recession Trough Date	1 Year Post S&P 500 TR	1 Year Post FF Value TR	1 Year Post FF Growth TR	3 Year Post S&P 500 TR	3 Year Post FF Value TR	3 Year Post FF Growth TR	5 Year Post S&P 500 TR	5 Year Post FF Value TR	5 Year Post FF Growth TR
Mar-33	81.5%	88.7%	82.9%	155.7%	135.3%	169.1%	62.4%	69.5%	96.2%
Jun-38	-1.7%	-14.5%	2.7%	0.8%	4.6%	14.5%	43.9%	129.3%	65.5%
Oct-45	-7.2%	-2.2%	-6.8%	14.7%	26.6%	-1.3%	64.8%	76.2%	38.5%
Oct-49	35.1%	43.8%	29.9%	92.8%	96.5%	66.3%	177.8%	174.6%	131.2%
May-54	36.1%	60.2%	34.4%	83.7%	95.5%	69.4%	145.2%	200.3%	143.0%
Apr-58	37.2%	61.0%	51.4%	66.4%	94.4%	86.4%	89.9%	128.4%	84.1%
Feb-61	13.6%	16.9%	8.6%	35.2%	49.1%	12.1%	68.4%	137.0%	55.6%
Nov-70	11.2%	11.0%	20.5%	20.6%	13.5%	-0.7%	25.1%	44.4%	1.5%
Mar-75	28.3%	51.5%	31.3%	22.1%	98.6%	44.4%	55.6%	157.8%	96.9%
Jul-80	13.0%	22.9%	22.8%	56.1%	113.6%	69.7%	100.5%	207.7%	75.2%
Nov-82	25.6%	39.8%	21.1%	66.8%	99.7%	36.4%	103.0%	123.9%	38.2%
Mar-91	11.0%	25.5%	16.7%	29.8%	73.2%	25.8%	98.0%	154.7%	82.9%
Nov-01	-16.5%	-11.9%	-18.5%	8.4%	39.8%	13.7%	34.3%	93.7%	33.5%
Jun-09	14.4%	25.5%	14.7%	57.7%	53.2%	62.3%	136.9%	158.2%	140.8%
Averages	**20.1%**	**29.9%**	**22.3%**	**50.8%**	**71.0%**	**47.7%**	**86.1%**	**132.6%**	**77.4%**

Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

…and when interest rates have been rising (or falling, for that matter),…

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.

…while a much more favorable outlook for corporate profits is a positive, in our view, for inexpensively priced companies.

THE PRUDENT SPECULATOR

EPS PLUNGED IN 2020 BUT LIKELY TO REBOUND IN 2021 & 2022

Q4 2020 earnings reporting season was very good, relative to analyst projections that had been too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS were miserable, but a massive rebound is projected in 2021 and 2022.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$53.87	$199.80
9/30/2022	$51.84	$193.37
6/30/2022	$48.25	$186.36
3/31/2022	$45.84	$179.28
12/31/2021	$47.44	$172.43
9/30/2021	$44.83	$163.17
6/30/2021	$41.17	$156.24
3/31/2021	$38.99	$141.86
12/31/2020	$38.18	$122.37
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

Source: Standard & Poor's. As of 3.18.21

*****

To be sure, as we saw last week, stock prices move in both directions, so are braced for a continuation of the downside volatility,…

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS WIN RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	112.0%	984	27	3.4	3/23/2020	3/17/2021
17.5%	67.2%	575	39	2.3	3/23/2020	3/17/2021
15.0%	66.9%	559	45	2.0	3/23/2020	3/17/2021
12.5%	44.5%	336	72	1.3	3/23/2020	3/17/2021
10.0%	35.1%	246	98	0.9	3/23/2020	3/17/2021
7.5%	23.7%	148	157	0.6	9/23/2020	3/17/2021
5.0%	14.8%	72	306	0.3	10/30/2020	3/17/2021

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 3.17.21. 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

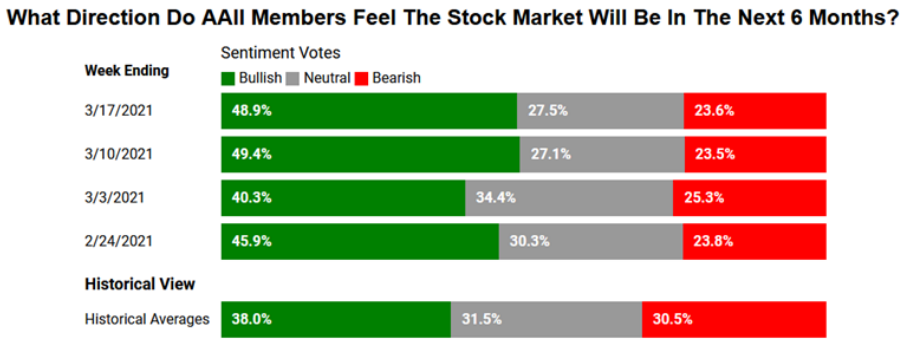
	Annualized Return	Standard Deviation
Value Stocks	13.1%	26.0%
Growth Stocks	9.9%	21.5%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	9.2%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.6%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 01.31.21. 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

…and we continue to note that optimism (often a contrarian indicator) on Main Street for the near-term prospects of equities is near the highest level of the year,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – OPTIMISM PLATEAUS



AAII Bull-Bear Spread

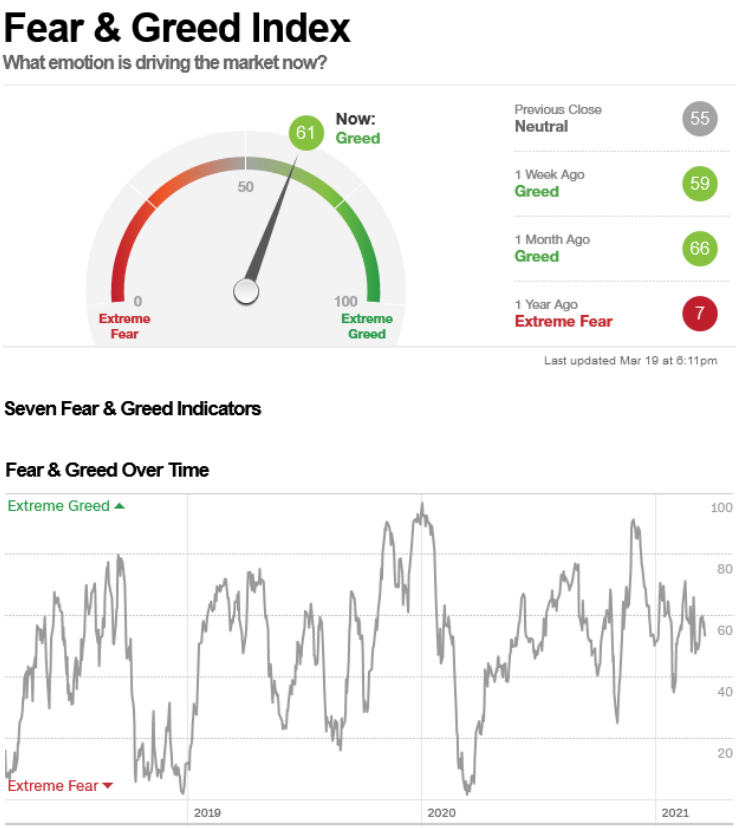
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.98											
BELOW	-54.0	8.0	877	0.27%	0.24%	1.28%	1.14%	3.71%	3.31%	6.97%	6.22%
ABOVE	8.0	62.9	876	0.15%	0.14%	0.47%	0.38%	1.85%	1.59%	4.48%	4.01%
Ten Groupings of 1752 Data Points											
1	-54.0	-15.0	176	0.57%	0.50%	2.21%	1.97%	5.87%	5.31%	10.51%	9.27%
2	-15.0	-7.4	175	0.35%	0.32%	0.97%	0.84%	3.97%	3.62%	7.17%	6.40%
3	-7.3	-1.4	175	0.31%	0.27%	1.57%	1.48%	3.43%	3.03%	7.07%	6.43%
4	-1.4	3.0	184	0.10%	0.06%	1.00%	0.91%	2.77%	2.41%	5.88%	5.39%
5	3.0	7.9	166	0.05%	0.02%	0.60%	0.50%	2.45%	2.19%	4.14%	3.59%
6	8.0	12.0	176	0.07%	0.05%	0.49%	0.37%	1.67%	1.43%	5.40%	5.01%
7	12.0	16.4	175	0.19%	0.17%	0.57%	0.48%	2.27%	2.01%	4.78%	4.25%
8	16.5	22.0	183	0.18%	0.17%	0.74%	0.67%	2.03%	1.76%	5.50%	5.08%
9	22.0	29.1	167	0.08%	0.06%	0.29%	0.20%	1.87%	1.59%	4.11%	3.53%
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 3.18.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, and the latest AAII Sentiment Survey released on Wednesday evening, March 17, 2021, saw the Bull-Bear Spread come in at 25.3%, down from 25.9% the week prior, which was the widest level of the year.

…even as another gauge of investor sentiment is not-too-far above the neutral zone,…

FEAR & GREED INDEX…INCREASE IN GREED DESPITE MARKET DIP



There has been a lot of frothiness in so-called "meme" stocks, cannabis companies and SPACs, while the *CNNMoney* Fear & Greed Index is now modestly in the Greed range, but overall equity market enthusiasm per this gauge of seven indicators is tempered by Fear in Safe Haven Demand and Neutral readings for Stock Price Breadth, Market Volatility and Market Momentum.

…and investors have only begun to become less encouraged about their fixed income holdings, at least in terms of mutual- and exchange-traded-fund flows.

STOCKS GAINING INTEREST AT THE EXPENSE OF BONDS…FOR A CHANGE

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	3/10/2021	3/3/2021	2/24/2021	2/17/2021	2/10/2021
Total Equity	21,523	-3,438	8,881	12,166	31,694
Domestic	16,540	-430	14,876	3,520	19,860
World	4,984	-3,008	-5,994	8,646	11,834
Hybrid	81	-475	361	-1,112	-45
Total Bond	1,192	20,431	12,416	17,565	18,612
Taxable	-523	20,693	11,968	14,643	14,519
Municipal	1,715	-261	448	2,921	4,093
Commodities	-1,952	-2,183	-1,523	-31	-570
Total	20,843	14,335	20,135	28,588	49,692

Source: Investment Company Institute

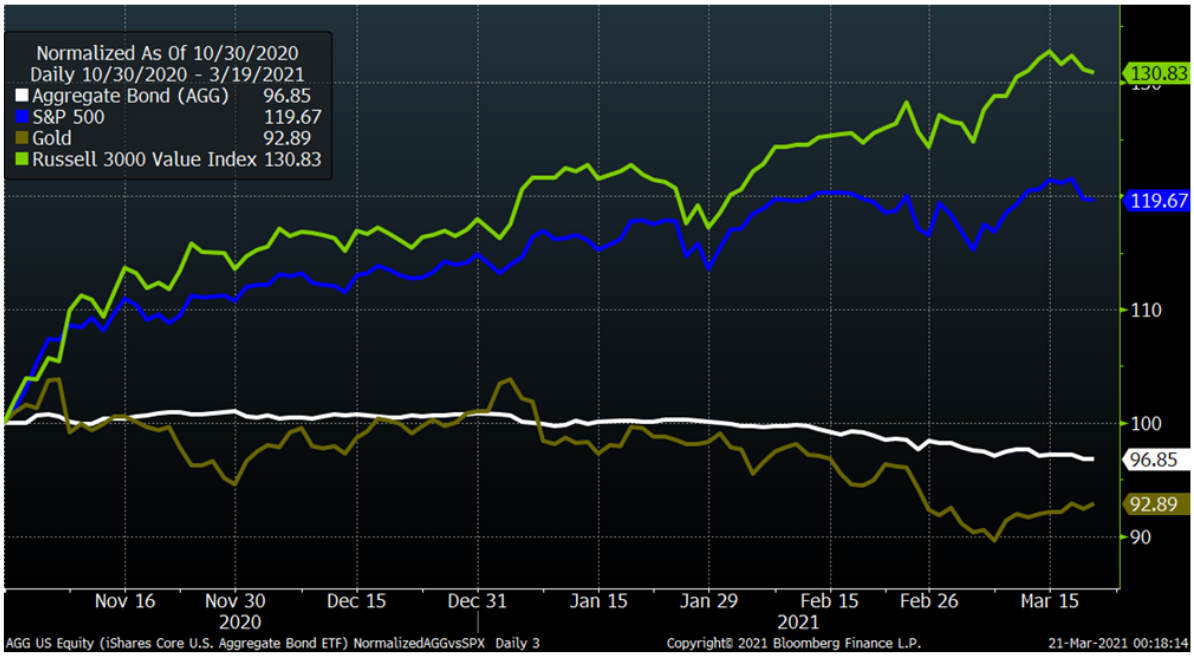
While most of the major equity market averages reside near all-time highs and bonds have been producing red ink this year, the long-playing investor love affair with fixed income waned only a bit in the latest week, though it has been no contest for years for flows into exchange traded and mutual funds, per the Investment Company Institute. One wonders where stocks might be if fund folks found reason to fancy them!

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	Aug-16	-9,956	30,859	Mar-18	-22,152	14,148	Oct-19	-24,645	43,187
Feb-15	5,547	30,321	Sep-16	-5,713	24,669	Apr-18	-7,403	24,176	Nov-19	-11,716	44,480
Mar-15	-1,494	4,905	Oct-16	-23,109	13,855	May-18	10,068	11,749	Dec-19	-27,500	50,733
Apr-15	-34,681	11,027	Nov-16	22,993	-13,289	Jun-18	-21,004	16,995	Jan-20	-24,544	73,855
May-15	-17,287	5,010	Dec-16	18,859	-4,142	Jul-18	1,007	22,495	Feb-20	-28,220	25,064
Jun-15	-7,023	6,324	Jan-17	5,097	31,037	Aug-18	-6,660	17,219	Mar-20	-7,485	-273,714
Jul-15	-14,864	-1,255	Feb-17	17,613	33,991	Sep-18	886	18,526	Apr-20	2,664	14,672
Aug-15	-18,569	-18,122	Mar-17	9,411	36,562	Oct-18	-9,657	-27,700	May-20	-20,929	73,166
Sep-15	-4,725	-10,849	Apr-17	-8,266	22,064	Nov-18	2,783	-7,459	Jun-20	-24,819	100,103
Oct-15	-807	15,397	May-17	-10,725	33,070	Dec-18	-28,953	-49,512	Jul-20	-46,524	98,490
Nov-15	654	-5,573	Jun-17	-7,944	29,372	Jan-19	-21,195	29,308	Aug-20	-57,594	84,113
Dec-15	476	-25,043	Jul-17	-12,518	29,139	Feb-19	3,632	45,138	Sep-20	-28,900	51,000
Jan-16	-27,222	7,686	Aug-17	-22,771	25,078	Mar-19	-3,654	38,412	Oct-20	-52,484	63,918
Feb-16	-9,108	11,915	Sep-17	-9,775	33,440	Apr-19	-5,307	40,565	Nov-20	41,143	58,854
Mar-16	7,711	29,296	Oct-17	3,166	36,110	May-19	-24,652	21,332	Dec-20	-34,003	76,186
Apr-16	-12,610	22,114	Nov-17	-4,417	19,788	Jun-19	-11,997	39,771	Jan-21	-37,318	93,757
May-16	-14,252	16,925	Dec-17	-9,054	19,491	Jul-19	-7,889	44,811			
Jun-16	-15,530	16,623	Jan-18	10,778	46,287	Aug-19	-29,908	22,304			
Jul-16	292	33,575	Feb-18	-41,444	2,706	Sep-19	-4,650	38,482	Totals:	-825,311	1,656,522

We suspect that many are worried that stocks have come too far too fast, but we continue to believe that the only problem with market timing is getting the timing right. After all, the most recent period when folks were really fretting about equities was just prior to the 2020 Elections. Alas, some moved out of stocks and went to cash, missing out on tremendous gains in the four-plus months since Halloween, while others had the misfortune of hiding out in instruments like bonds or gold, both of which have since lost value in the quest for safety.

No doubt, many investors were very concerned about the 2020 U.S. Elections, but those who at the end of October sought protection in safe havens like gold and bonds have missed out on sensational equity market gains AND have red ink to show for their flight to safety.



Obviously, there was no guarantee that stocks would have rallied post-election, nor is there any assurance that they will move higher still over the balance of 2021, but we continue to think that the valuations for our broadly diversified portfolios of what we believe to be undervalued stocks are very reasonable,…

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	20.4	15.7	1.3	2.5	2.2
ValuePlus	22.7	16.3	1.6	2.5	2.0
Dividend Income	20.2	15.5	1.1	2.6	2.6
Focused Dividend Income	20.4	15.7	1.3	2.8	2.5
Focused ValuePlus	19.8	15.9	1.6	2.5	2.2
Small-Mid Dividend Value	19.0	14.9	0.8	1.8	2.1
Russell 3000	36.0	23.9	2.8	4.1	1.4
Russell 3000 Growth	44.1	31.2	4.5	11.1	0.8
Russell 3000 Value	30.7	19.5	2.0	2.5	2.0
Russell 1000	33.2	23.3	2.9	4.2	1.4
Russell 1000 Growth	39.7	29.6	4.7	11.7	0.8
Russell 1000 Value	28.7	19.3	2.1	2.6	2.0
S&P 500 Index	31.7	22.6	2.9	4.3	1.5
S&P 500 Growth Index	36.1	27.8	5.3	9.8	0.8
S&P 500 Value Index	28.1	19.0	2.0	2.7	2.2
S&P 500 Pure Value Index	20.3	12.8	0.8	1.3	2.5

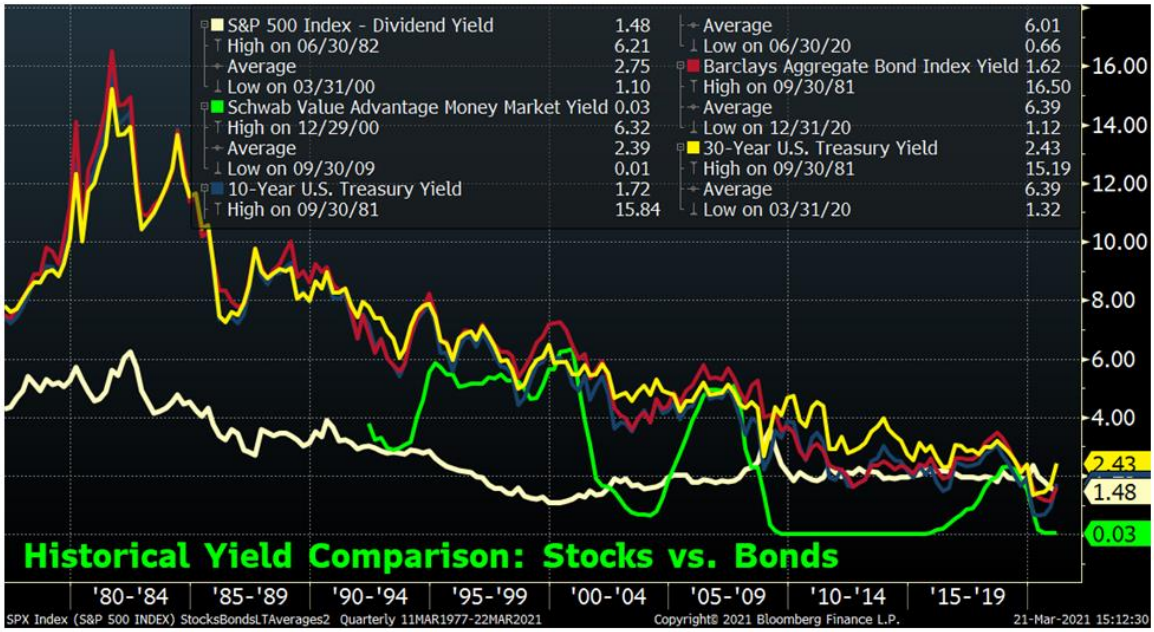
As of 03.20.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…while we assert that equities in general are still attractively valued in the context of the still historically low interest rate environment. After all, the income from stocks is very competitive with fixed income instruments,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.48%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield almost as much as the Barclays Aggregate Bond Index and 50 times the yield of a "generous" Money Market Fund**!



…most of which have their coupons, well, fixed, while payouts on equities generally have risen over time,…

THE PRUDENT SPECULATOR

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, even as 69 companies either decreased or suspended their payouts in the face of the COVID-19 pandemic.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 3.18.21)	113	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.)	$63.73
2021 (Est.)	$59.87
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

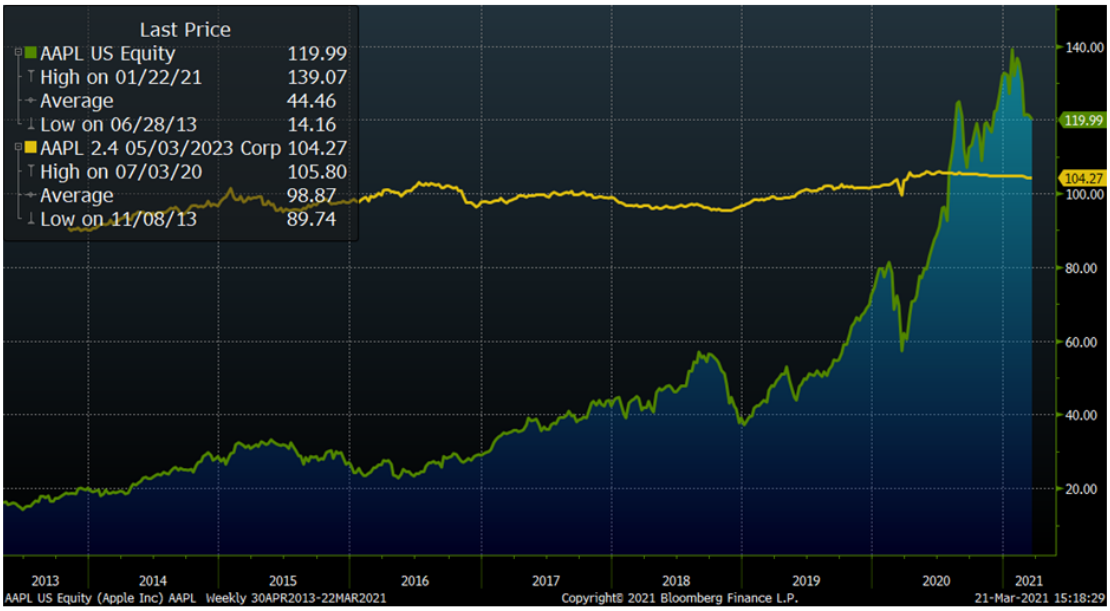
Source: Bloomberg. As of 3.19.21

…as have their share prices.

THE PRUDENT SPECULATOR

APPLE STOCK PRICE VS. BOND PRICE

Investors gobbled up an Apple 10-Year bond yielding 2.4% in May 2013 when the stock, then priced at $16, yielded 2.8%. Given an 88% increase in the dividend over the past 7+ years, the AAPL buyer back then now has a 5.2% yield to go along with a 7-fold increase in the stock price. At least the bond buyer minimized their volatility!



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 four of our companies that either had news out last week of sufficient interest to merit a Target Price review or are worthy of comment.

Like those of many of its peers, shares of **PNC Financial** (PNC – $175.79) have been on a tear this year, up nearly 18%, and they have gained over 50% since November 6 (the Friday before news of the Pfizer vaccine approval was announced). Given the run, the stock now trades at 18 and 14 times the respective 2021 and 2022 EPS estimates, a premium to the average bank in the KBW index, although we note that PNC has traded at a slight premium to the index for the last several years.

A convergence of factors (steepening yield curve, very low-cost funding, strong capital bases, etc.) have led us to raise Target Prices for our bank holdings in general. With nearly 60% of income from rate spreads and an above-average Common Equity Tier 1 ratio of 12.2%, we expect these factors to immensely benefit PNC, which has grown its tangible book value per share by 11% per annum over the past decade. In addition, PNC is slated to close on its purchase of BBVA's U.S. assets by mid-year, which will propel it into the top-five largest U.S. banks in terms of assets, deposits and branches. The dividend yield for PNC is a healthy 2.6% and our revised Target Price is $189.

Another of our holdings that has seen big gains of late, shares of premium tool manufacturer **Snap-on Inc** (SNA – $225.40) are up 118% over the past year. After a 40% year-over-year dip in Q2 EPS, the company roared back in Q4, beating analyst estimates by 30% as it earned $3.84 per share.

We continue to think Snap-on is positioned to benefit from the aging North American vehicle fleet and ever-growing need to improve technician productivity, while increased vehicle complexity has driven the demand for specialty tools and sophisticated diagnostic solutions, especially given legislation mandating fuel economy and safety requirements. Despite the rally of late, we note that shares continue to offer a free cash flow yield of over 7.5%, while there is very little debt on the balance sheet. Our Target Price for SNA now stands at $235.

Shares of **FedEx** (FDX – $279.58) jumped 6% after the company reported a terrific fiscal Q3 2021. The shipper earned $3.47 per share (vs. $3.22 est.) and had revenue of $21.5 billion (vs. $20.0 billion). While poor weather resulted in a $350 million negative impact on net income, the online shopping boom during the holiday season resulted in record package volume and margin improvement in the 7-day FedEx Ground service. FedEx is a major link in the COVID vaccine supply chain, having delivered supplies, ingredients and doses to 22 countries and is prepared to deliver vaccines to more than 220 countries.

Chief Marketing & Communications Officer Brie Carere commented, "The U.S. domestic parcel market is expected to grow to 101 million packages a day by calendar year 2022, with e-commerce contributing 86% of total U.S. market growth. E-commerce as a percentage of U.S. retail sales was approximately 21% in Q4 of calendar year '20, significantly above the pre-pandemic level. We remain excited about the diversification and evolution of the e-commerce market. Some of our largest retail customers reported e-commerce growth rates in the high double and even triple digits through 2020. As the U.S. reopens, we recognize the potential for a short-term deceleration in e-commerce shopping. However, we are very confident that e-commerce, as a percentage of retail, has a long growth runway…Internationally, global air cargo capacity remains down 20% year-over-year as of January. And we expect air cargo capacity to remain constrained through the end of calendar year 2021. We expect passenger capacity to recover between 55% and 75% of its pre-COVID level by the end of calendar year 2021 with a full recovery not anticipated until '23 or '24."

CFO Mike Lenz said, "While there remains a degree of uncertainty as we begin to see progress in combating the pandemic, we are projecting full year adjusted earnings per share of $17.60 to $18.20 compared to $9.50 adjusted EPS in FY '20. We expect our effective tax rate prior to the

year-end mark-to-market adjustment to be between 21% and 22% for the full year fiscal ’21. We expect higher revenue, operating income and operating margins on a year-over-year basis at all our transportation segments in the fourth quarter, which does include 1 additional operating weekday. These forecasts assume continued recovery in U.S. industrial production and global trade, no additional COVID-19-related business restrictions and current fuel price expectations. With this forecast, we expect higher variable incentive compensation expense in the fourth quarter as we plan to reward our employees for their achievements this year.”

FDX shares have soared from the low of $90.49 on March 16 of last year, boosted by massive online shopping volume. The fear that losing Amazon as a customer would present a great challenge, especially as the online giant continues to add to its dedicated fleet leases, has largely receded and data from Bloomberg shows that FDX’s largest customers, including the U.S. Postal Service (2.1%), BestBuy (0.9%), Walgreens Boots Alliance (0.8%), AutoZone (0.5%) and Ford (0.4%), hardly represent giant chunks of revenue. Thanks to boosted analyst estimates, FDX shares remain inexpensive. With nearly $20 of per share earnings expected in fiscal 2022 and $22 in 2023, the forward P/E ratios are 14x and 13x, respectively, while the 1% dividend yield seems likely to stick around for the time being. We appreciate that FDX has been using its free cash flow to grow the business, manage its debt load in its infrastructure-intensive business and make fleet changes. Our Target Price for FDX has been boosted to $343.

Electronic manufacturing services firm **Jabil Inc.** (JBL – $51.05) earned $1.27 per share in Q2 of fiscal 2021 (vs. $0.95 est.), another 150% improvement over the same quarter a year ago. Net revenue for period was a record $6.83 billion, an increase of 11.5% year-over-year. JBL benefitted from strong product demand, especially in the Diversified Manufacturing Segment (DMS), and cost controls. Jabil has also worked to improve its business mix, which it expects will contribute to margin expansion in 2022.

CFO Mike Dastoor explained, “Our second quarter performance was outstanding, driven by the combination of broad-based end market strength and associated leverage and improved portfolio mix and excellent operational execution by the entire Jabil team. We saw broad-based revenue strength across the business, most notably in mobility, cloud, health care, connected devices, automotive and semi-cap. Given the additional revenue, I am particularly pleased with the strong leverage we achieved during the quarter, which enabled us to deliver a strong core operating margin of 4.2%. And finally, our net interest expense came in better than expected during the quarter due in large part to better working capital management, coupled with the proactive steps we’ve taken over the past year to optimize our capital structure.”

Mr. Dastoor also offered Q3 guidance, “DMS segment revenue is expected to increase 19% on a year-over-year basis to $3.5 billion. This is mainly to strong end market outlook. EMS segment revenue is expected to be $3.4 billion, an increase of 1% on a year-over-year basis. It’s worth noting our EMS business remains strong and healthy. The modest increase is reflective of our previously announced transition to a consignment model in the cloud business. We expect total company revenue in the third quarter of fiscal ’21 to be in the range of $6.6 billion to $7.2 billion for an increase of 9% on a year-over-year basis at the midpoint of the range. Core operating income is estimated to be in the range of $220 million to $270 million. Core diluted earnings per

share is estimated to be in the range of $0.90 to $1.10. GAAP diluted earnings per share is expected to be in the range of $0.69 to $0.89."

Commenting on broader industry trends, Mr. Dastoor said he believes there is tremendous opportunity in the health care space given rising costs, an aging population and demand for better health care in the Emerging Markets. JBL's decade-plus of experience in automotive components will propel electric vehicles and he expects Jabil to continue to benefit from the importance of eco-friendly technologies. 5G, he believes, will "transform the way we live, work, play and educate," while demand for smart and eco-friendly packaging continues to accelerate.

Shares have gained 20% this year, after 'just' a 4% total return last year (including the intervening plunge). We think Jabil's diversified revenue stream should be regarded as a major positive, while there's plenty of room for continued growth. Of course, it's always top of mind to consider what we are willing to pay for any growth, so it's surprising that despite JBL's growth potential, the 10x forward P/E ratio and 0.27 P/S ratio are still deep in the Value camp. We also like the exposure JBL gives us to multi-year tailwinds in Cloud, 5G and the electrification of automobiles. The company's strong performance across its diversified business platform, reasonable valuation and generous capital return program have led us to bump our Target Price to $63.