Market Commentary Monday, March 29, 2021

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EXECUTIVE SUMMARY

Fund Flows – Buying High and Selling Low
Media Folly – Daily Market Fluctuations Tough to Explain
Week in Review – Big Rally Thursday and Friday Takes Stocks Higher
Econ News – Mixed Data
Inflation – Chair Powell Not Very Concerned; Stocks Don't Mind Inflation
History Books – Stocks Have Performed Well When Interest and Tax Rates Have Moved Higher
Sentiment – AAII Bullish; *CNNMoney* Neutral
Dividend Payers – 25 Undervalued *TPS* Stocks Yielding 3% or Greater
Stock News – Updates on CE, LOW, INTC, LRCX, COHU & KLIC

Market Review

Certainly, it doesn't always work out this way, but data provider EPFR reported that just one week after U.S. equity funds enhoyed record-setting inflows, numbers echoed by the Investment Company Institute,…

THE PRUDENT SPECULATOR

BIG INFLOWS INTO STOCKS RIGHT BEFORE A SIZABLE ONE-WEEK SKID

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	3/17/2021	3/10/2021	3/3/2021	2/24/2021	2/17/2021
Total Equity	53,682	21,548	-3,438	8,881	12,166
Domestic	42,980	16,540	-429	14,876	3,520
World	10,702	5,008	-3,008	-5,994	8,646
Hybrid	290	81	-475	361	-1,112
Total Bond	15,793	1,192	20,431	12,416	17,565
Taxable	13,370	-523	20,692	11,968	14,643
Municipal	2,423	1,715	-261	448	2,921
Commodities	-631	-1,952	-2,183	-1,523	-31
Total	69,135	20,868	14,336	20,135	28,588

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	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

Incredibly, following a record level of inflows into U.S. equity mutual and exchange traded funds for the week ended 3.17.21, stocks stumbled over the next five trading days, with the equal-weighted S&P 500 down 2.6% for the week ended 3.24.21. Of course, despite recent red ink, the long-playing love affair with fixed income resumed after a one-week respite, with bonds trouncing stocks in the flows race over the last six years.

…those same funds suffered their largest weekly outflow in 14 weeks for the week ended March 24. Nothing unusual about people moving money around, but more than a few folks piled into stocks just before a decent-sized pullback and then many jumped out AFTER losing money, missing out on a terrific two-day bounce that took the S&P 500 right back to where it was on St. Patrick's Day.

Investors piled into U.S. stocks, with record inflows for mutual funds and ETFs for the week ended St. Patrick's Day, just in time for a sharp move lower. Then, for the week ended 03.24.21, there were the biggest outflows in 14 weeks from domestic equity funds, right before a two-day rally that returned the S&P 500 to where the seven days began.

'Twas ever thus our founder Al Frank liked to say as very few have had more success attempting to time their moves in and out of stocks than if they simply stayed put. Indeed, time in the market regularly trumps market timing, provided investors have the patience and discipline to stay the course during the inevitable trips south that are always part of the equation.

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	3/26/2021
17.5%	67.2%	575	39	2.3	3/23/2020	3/26/2021
15.0%	66.9%	559	45	2.0	3/23/2020	3/26/2021
12.5%	44.5%	336	72	1.3	3/23/2020	3/26/2021
10.0%	35.1%	246	98	0.9	3/23/2020	3/26/2021
7.5%	23.7%	148	157	0.6	9/23/2020	3/26/2021
5.0%	14.8%	73	306	0.3	10/30/2020	3/26/2021

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 3.26.21. 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	13.2%	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	5.5%	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 02.28.21. 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

Alas, the financial press provides little help as the media is seemingly always focused on short-term market moves, rather than the fact that Value stocks, for example, have returned 13.2% per annum going back 94 years.

Case in point were the quotations offered in the newspapers on 3.25.21 discussing the downturn suffered by stocks over the previous five trading sessions. The *Associated Press* (AP) cited a market watcher who explained, “The markets are kind of choppy and sideways and everything is sort of trying to figure out who’s in charge, where’s the equilibrium – and it creates uncertainty. When people don’t know what to do, the either do nothing or they sell. They very rarely buy.”

Another *AP* source added, “Traders are juggling worries about the speed of the vaccine distribution, virus cases and the potential for future tax changes crimping corporate profits. There’s a feeling that we’re not quite done with COVID-19 yet at all. That, combined with other concerns, is creating a lot of uncertainty.”

For its part, *The Wall Street Journal* (WSJ) quoted a market strategist: “We are now one year into this rally: We’ve seen a massive decline and a massive rally, and my sense is that the markets are just going to pause for breath from here. Gains are going to be much harder to come by for the rest of the year.”

When stock prices moved nicely higher the next day, the tune at *AP* changed, "There's a good chance the recovery could be surprisingly strong with little interference from the Federal Reserve…There is a very clear message that the Fed is going to sit back and let the economy grow at a hotter rate because their number one priority is unemployment."

And, *The WSJ's* 3.26.21 edition included, "From here, you could have in aggregate flattening markets. We're going to be looking for a new narrative. Growth could recover, value could wait, and then on the surface nothing happens. I have modest expectations for the market until we get a sense of what the next catalyst is."

When Friday saw an even better rally that pushed nearly all the major market averages well into the green for the full trading week, about all *The WSJ* could muster was, "Generally things look pretty good, but it is a very unstable environment."

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A LOUSY START BUT A GREAT END TO THE WEEK…VALUE'S LEADS GROWS

Equities again offered a reminder last week that prices move in both directions, but it was another very good week when all was said and done...save for the S&P 500 Pure Value Index.

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
-0.07	-4.04	-0.98	0.98	7.91	5.80	9.40	8.86	15.86	Bloomberg Barclays Global-Aggregate Bond
0.35	-3.28	-2.19	-2.67	2.92	1.72	9.87	15.38	17.36	Bloomberg Barclays US Aggregate Bond
1.36	8.58	25.91	30.57	81.77	49.85	34.97	46.42	112.52	Dow Jones Industrial Average
0.81	8.55	27.33	33.59	83.18	52.54	30.66	36.59	77.45	New York Stock Exchange Composite
0.87	0.49	16.65	21.75	87.18	60.59	63.82	79.57	160.81	Russell 3000 Growth
1.09	**12.64**	**33.42**	**41.36**	**86.49**	**56.11**	**31.29**	**37.78**	**78.33**	**Russell 3000 Value**
0.98	6.35	24.65	31.04	88.05	59.59	48.64	59.58	119.01	Russell 3000
1.56	11.97	33.45	43.62	101.80	67.89	43.32	52.28	102.76	S&P 500 Equal Weighted
1.58	6.20	22.35	27.53	80.73	53.72	46.33	58.27	115.31	S&P 500
1.53	1.37	15.75	20.68	81.14	55.81	55.07	71.55	144.04	S&P 500 Growth
1.63	**11.67**	**30.46**	**35.93**	**77.40**	**48.71**	**34.05**	**41.36**	**81.74**	**S&P 500 Value**
1.19	-0.31	16.94	22.78	89.83	57.20	44.05	49.56	117.73	S&P 500 Pure Growth
-1.04	**22.12**	**51.15**	**67.99**	**125.66**	**83.08**	**25.93**	**25.77**	**69.21**	**S&P 500 Pure Value**

As of 03.26.21. Source Kovitz using data from Bloomberg

Obviously, trying to explain short-term market gyrations is a fool's errand, and seldom will market professionals ever be quoted with a response like, "Who the heck really knows why the incremental equity buyer is bullish one day and bearish the next?" But that is the right answer, as there are always cross currents buffeting stocks and the positive elements will be credited if the major market averages move higher and the negative issues will be blamed if they move lower.

After all, it wasn't as if news on the COVID-19 front was materially better on Thursday and Friday last week, than it was Monday, Tuesday or Wednesday,…

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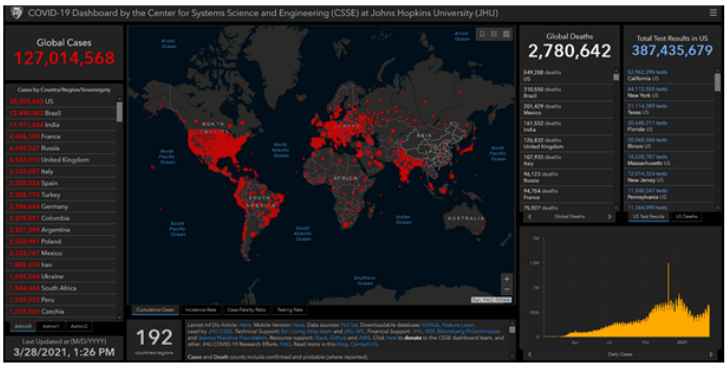
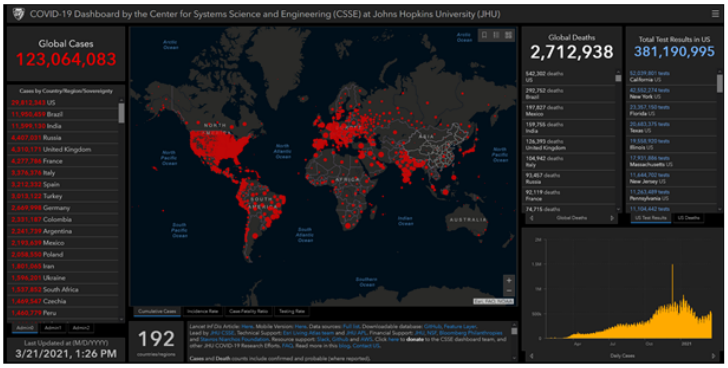
COVID-19 GLOBAL CASE AND MORTALITY RATES





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 549,000 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 near 4 million. The rise in weekly fatalities was "only" 68,000, 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 2.7 million doses a day last week) are rising, though!

…while the economic data out last week was mixed, with weaker-than-expected numbers on the health of consumer pocketbooks,…

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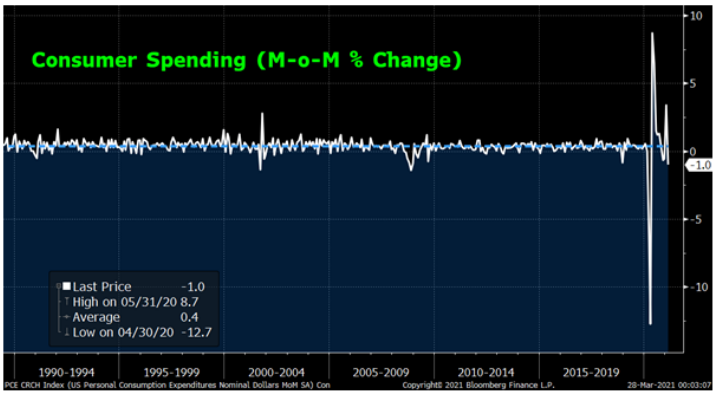
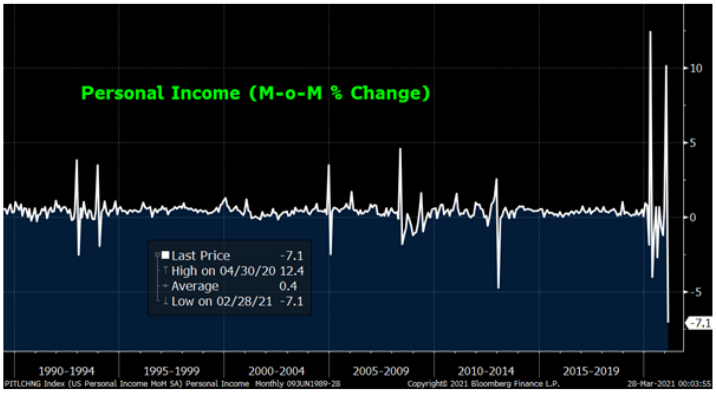
CONSUMERS REIN IN SPENDING AS INCOMES FALL





With much colder weather and a lull in government stimulus payments, consumer spending dropped a worse-than-expected 1.0% in February, the biggest decline since the start of the Pandemic. Shoppers had to reach into their savings somewhat, as personal income skidded a whopping 7.1% in February, following a massive 10.1% increase in January. Of course, new checks from Uncle Sam hit bank accounts in March.

…durable goods orders and new homes sales,…

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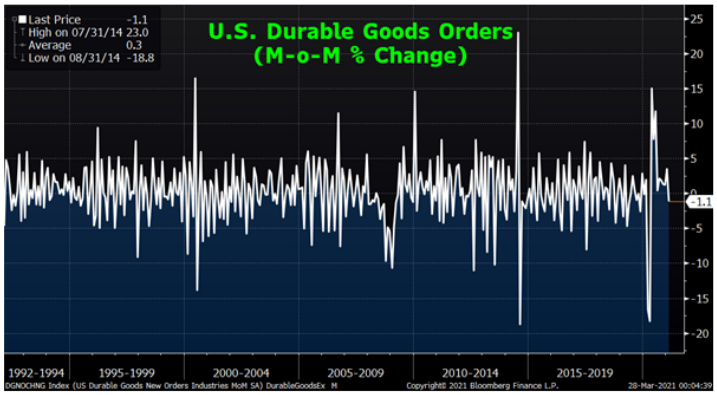
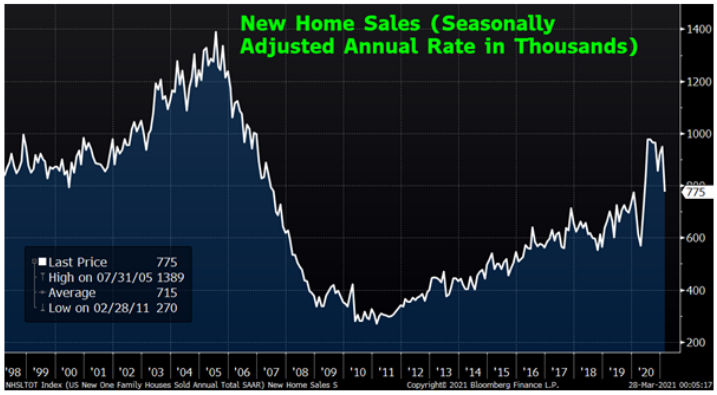
WEAKER-THAN-EXPECTED ECONOMIC NUMBERS





The headline number for durable goods orders in February trailed estimates with a dip of 1.1%, the first decline since last spring. Excluding volatile transportation orders, orders fell 0.9%, with most thinking both data points represent a breather and not a downtrend in manufacturing. Sales of new homes for February came in at a worse-than-forecast 775,000 units, with bad weather to blame, though the median price did drop 1% from January.

…arguably offset by terrific forward-looking PMI tallies for March from IHS Markit,…

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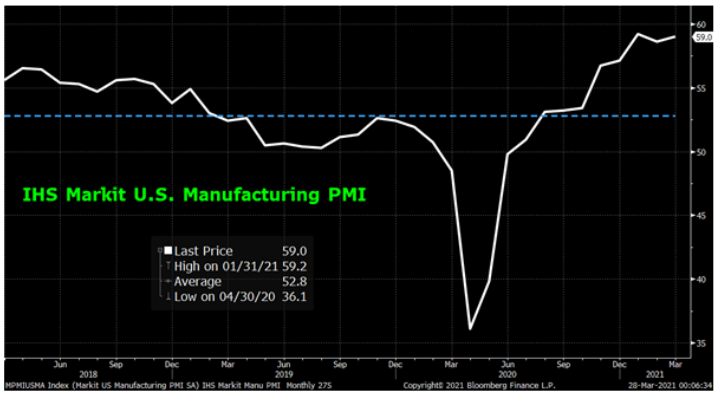
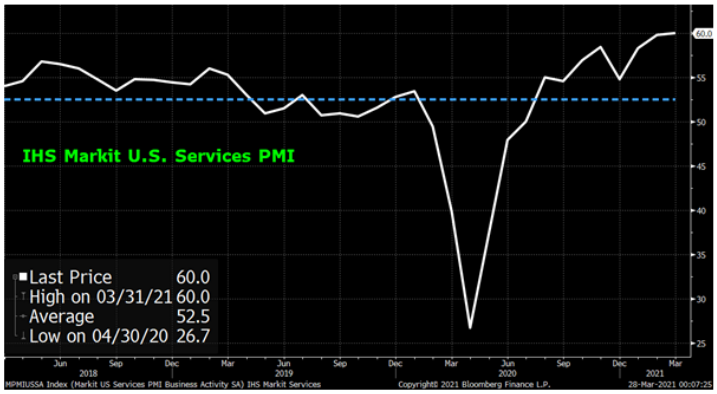
VERY GOOD IHS MARKIT PMI'S IN MARCH

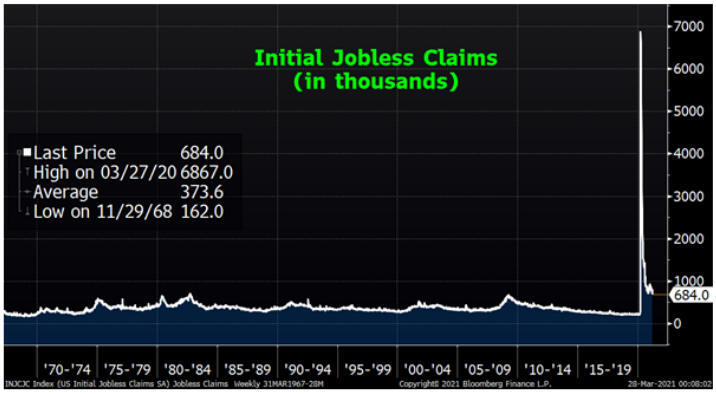


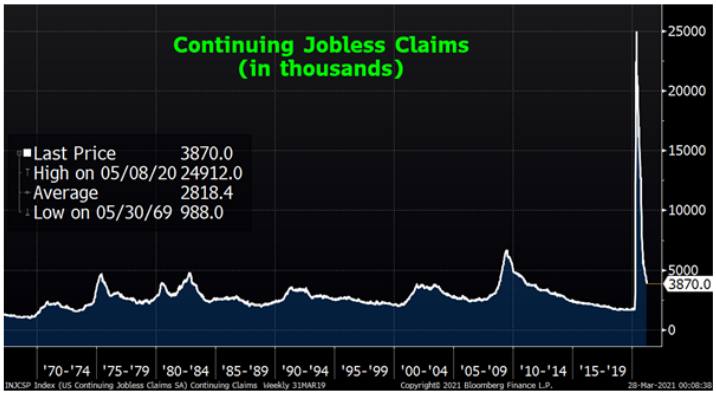


IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in March came in at 59.0 and 60.0, respectively, the former close to and the latter at a record high. Information provider IHS stated, "The vaccine roll-out, the reopening of the economy and an additional $1.9 trillion of stimulus all helped lift demand to an extent not seen for over six years, buoying growth of orders for both goods and services to multi-year highs."

…and a big improvement in employment figures.

SIZABLE DROPS IN FIRST-TIME FILINGS AND CONTINUING CLAIMS





The jobs market markedly strengthened in the latest week, with new applications for unemployment benefits dropping to a seasonally adjusted and better-than-expected 684,000 for the period ended Mar. 20, down 97,000 from the week prior. Continuing jobless claims filed through state programs also dropped by 264,000 to a seasonally adjusted 3.87 million, a new pandemic low. Of course, 82.6 million unemployment claims have been filed in the last 53 weeks.

Of course, most expect the economy to kick into high gear this year, including the all-important Federal Reserve, with Jerome H. Powell stating last week, “The recovery has progressed more quickly than generally expected and looks to be strengthening,” However, the Fed Chair was quick to add, “But the recovery is far from complete, so, at the Fed, we will continue to provide the economy the support that it needs for as long as it takes.”

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

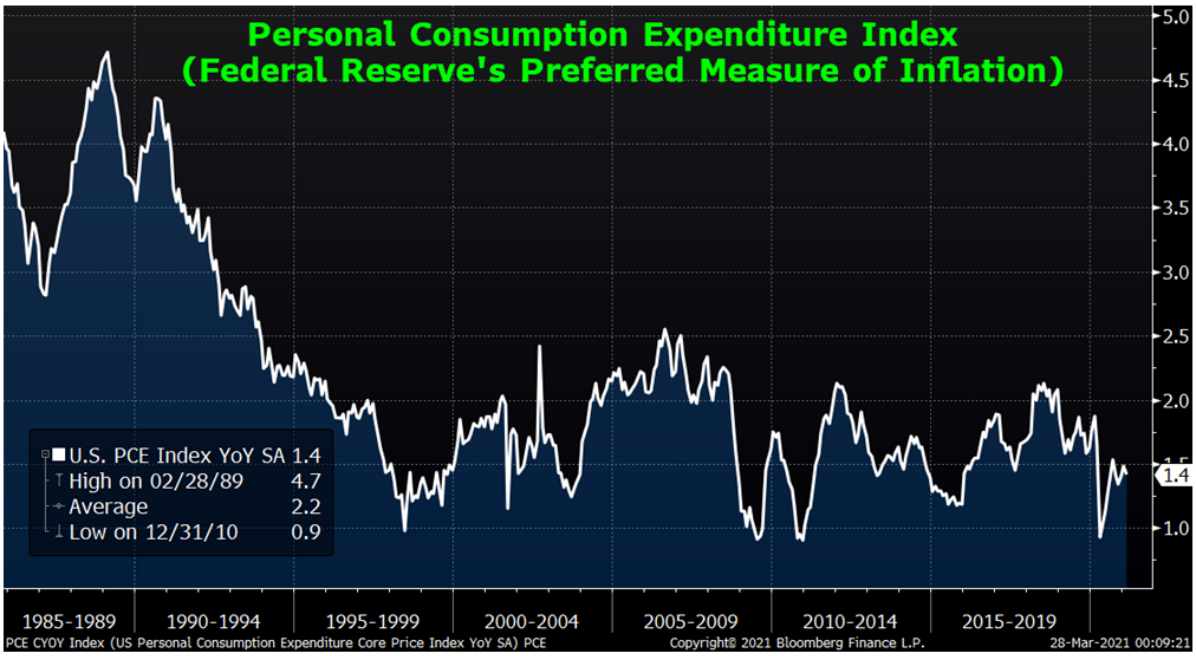
Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
December projection	4.2	3.2	2.4	1.8	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.0	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

The Fed seems to have little concern about the inflationary impact of its accommodative monetary policy,…

FED WILL TOLERATE INFLATION MODERATELY > 2%

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

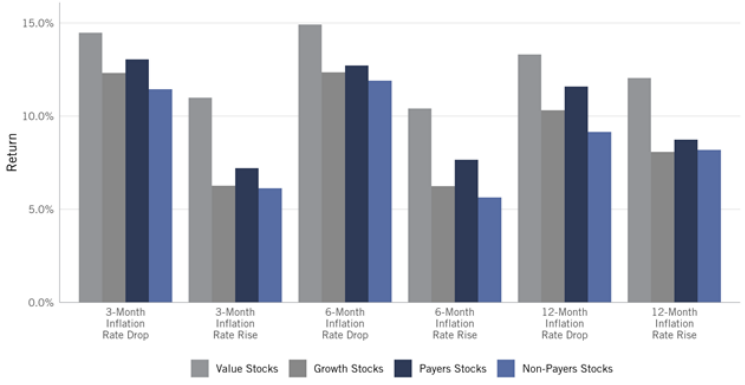


…with Chair Powell last week explaining, "In the near term, we do expect, as many forecasters do, that there will be some upward pressure on prices. Long term we think that the inflation dynamics that we've seen around the world for a quarter of a century are essentially intact. We've got a world that's short of demand with very low inflation…and we think that those dynamics haven't gone away overnight and won't."

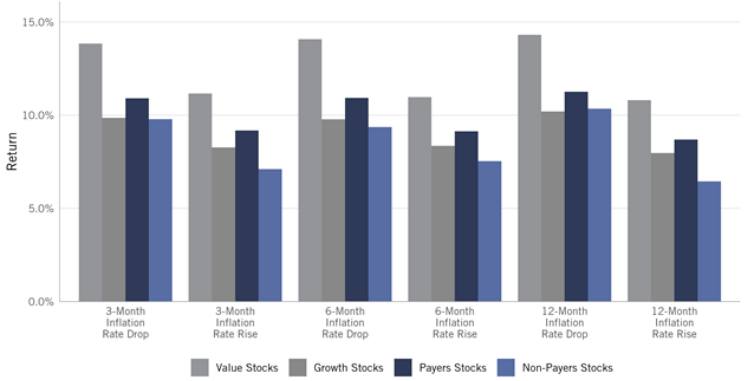
Those assurances notwithstanding, we understand that some pundits believe inflation would be bad for equity prices, even as the historical evidence, on average, argues otherwise.

THE PRUDENT SPECULATOR

INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



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



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

Many have incorrectly warned that rising inflation rates will prove fatal for equities, as nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the inflation rate over 3-, 6-, and 12-month time spans, with Value Stocks and Dividend Payers leading the charge.

*****

Speaking of market history, it also would seem that worries are rising about the increase in interest rates and the potential for higher taxes, so we again offer one of our favorite quotations from Vannevar Bush, “Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation.”

No guarantees, of course, that past is prologue, but the historical evidence shows that higher interest rates, on average, have been far more of a concern for bonds than for stocks,…

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 it is fascinating that stocks have actually performed better, yes better, when individual income tax rates have been higher than when they have been lower,…

HIGHER INCOME TAX REGIMES: STOCK TAILWIND & BOND HEADWIND

Higher Tax Regimes - Max U.S. Individual Income Tax Rate > 39.6%: Annual Returns

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	20.2%	13.5%	13.5%	15.4%	5.2%	4.7%	4.9%	3.5%
Geometric Average	17.1%	10.9%	12.0%	10.6%	4.9%	4.4%	4.8%	3.4%
Median	17.8%	15.7%	14.8%	15.1%	3.5%	3.4%	3.2%	2.6%
Max	116.2%	84.0%	66.0%	81.8%	36.8%	34.9%	26.1%	13.8%
Min	-54.3%	-50.2%	-39.0%	-58.8%	-8.1%	-9.4%	-1.2%	0.0%
Count	55	55	55	55	55	55	55	55

Source: Kovitz using data from Ibbotson Associates SBBI and https://www.irs.gov/statistics/soi-tax-stats-historical-table-23. From 1930 to 2020.

Lower Tax Regimes - Max U.S. Individual Income Tax Rate <= 39.6%: Annual Returns

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	8.9%	9.1%	8.6%	9.6%	8.1%	7.7%	5.4%	2.9%
Geometric Average	5.5%	6.6%	6.5%	5.5%	7.8%	7.2%	5.3%	2.9%
Median	15.7%	10.0%	12.6%	12.0%	9.8%	8.0%	6.3%	2.6%
Max	38.4%	44.1%	32.3%	55.5%	24.5%	28.1%	15.7%	8.1%
Min	-58.2%	-42.3%	-52.2%	-56.3%	-7.6%	-14.7%	-5.2%	0.0%
Count	36	36	36	36	36	36	36	36

…and dividend-paying stocks have had better returns than non-dividend-payers under higher dividend-tax regimes than under lower regimes…and vice versa.

THE PRUDENT SPECULATOR

STAYING ON COURSE: HIGHER TAX RATES FAVOR…DIVIDEND PAYERS

With the Biden Tax plan supposedly returning the tax rate on dividends to the ordinary income rate, rather than the preferential "qualified" rate that has been in place since 2003, some are suggesting that investors avoid dividend paying stocks. Keeping in mind that capital gains have accounted for the lion's share of long-term returns, the table below vividly illustrates that **dividend-paying stocks have outperformed non-dividend payers when taxed at higher levels and vice-versa**.

Tax Regimes & Annualized Equity Returns

Period	Dividend Status	No Dividends	Low 30% Div Payers	Mid 40% Div Payers	High 30% Div Payers	All Div Payers
Revenue Act 1936						
1936-1939	Fully Taxable	-1.6%	4.6%	4.5%	-0.4%	3.2%
Revenue Act 1940						
1940-1953	Exempt	14.1%	9.5%	12.6%	13.7%	12.1%
Internal Revenue Code 1954						
1954-1985	Normal Income with Modest Credits	9.6%	10.6%	11.5%	14.2%	12.2%
Tax Reform Act 1986						
1986-2002	Fully Taxable	7.9%	11.6%	12.4%	13.7%	12.7%
Bush Tax Cuts 2003						
2003-2020	Qualified Dividends at Lower Rate	15.6%	10.5%	12.4%	8.9%	10.9%

Source: Kovitz using data from Professors Fama & French. IRS.gov and SureDividend.com

So, we think it important to consider what actually has occurred with stocks and whatever event that is causing consternation than to rely on conventional wisdom…or the proclamations found in print, on television or online. And continuing on with the tax theme, for those fretting that stocks will plunge should Washington push through a tax hike this year, here is what has happened the previous 13 times such an event has occurred.

Years With Max U.S. Individual Income Tax Rate Increase

Year & Change	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
2013: 39.6% up from 35%	35.6%	33.5%	30.1%	34.5%	-7.0%	-13.2%	-3.7%	0.0%
1993: 39.6% up from 31%	21.0%	6.1%	9.6%	16.5%	12.6%	17.1%	10.8%	2.9%
1991: 31% up from 28%	30.6%	41.8%	29.6%	45.6%	18.4%	18.0%	14.5%	5.5%
1969: 77% up from 75%	-21.9%	-10.8%	-10.5%	-25.3%	-8.1%	-4.7%	-0.6%	6.4%
1968: 75% up from 70%	32.6%	18.0%	14.2%	22.4%	2.8%	0.0%	4.5%	5.1%
1952: 92% up from 91%	13.7%	10.5%	14.2%	10.3%	3.5%	1.2%	1.6%	1.6%
1951: 91% up from 84%	13.8%	18.1%	19.5%	9.1%	-2.7%	-4.0%	0.4%	1.5%
1950: 84% up from 82%	45.6%	25.0%	28.1%	47.7%	2.1%	0.1%	0.7%	1.2%
1944: 94% up from 88%	38.0%	25.2%	21.6%	37.4%	4.6%	2.8%	1.8%	0.3%
1942: 88% up from 81%	32.9%	15.6%	19.5%	33.9%	2.6%	3.2%	1.9%	0.3%
1940: 81% up from 79%	-1.5%	-2.5%	-2.1%	-6.2%	3.4%	6.0%	3.0%	0.0%
1936: 79% up from 63%	54.1%	27.8%	26.3%	46.0%	6.6%	7.3%	3.0%	0.2%
1932: 63% up from 25%	46.9%	8.0%	13.3%	32.9%	10.5%	16.0%	8.5%	1.0%
Arithmetic Average	26.3%	16.6%	16.4%	23.5%	3.8%	3.8%	3.6%	2.0%
Geometric Average	24.4%	15.8%	15.8%	21.4%	3.5%	3.5%	3.5%	2.0%
Median	32.6%	18.0%	19.5%	32.9%	3.4%	2.8%	1.9%	1.2%
Max	54.1%	41.8%	30.1%	47.7%	18.4%	18.0%	14.5%	6.4%
Min	-21.9%	-10.8%	-10.5%	-25.3%	-8.1%	-13.2%	-3.7%	0.0%
Count	13	13	13	13	13	13	13	13

Source: Kovitz using data from Ibbotson Associates SBBI and https://www.irs.gov/statistics/soi-tax-stats-historical-table-23. From 1930 to 2020.

True, some will argue that a proposed tax hike might not be retroactive and will instead be a 2022 event, so we have crunched those numbers as well.

Years Before Years With Max U.S. Individual Income Tax Rate Increase

Year & Change	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
2012 (2013: 39.6% up from 35%)	23.3%	14.8%	15.1%	19.7%	10.5%	3.8%	1.7%	0.1%
1992 (1993: 39.6% up from 31%)	27.2%	6.2%	9.4%	11.8%	9.1%	8.0%	7.1%	3.5%
1990 (1991: 31% up from 28%)	-18.9%	-7.2%	-2.8%	-15.0%	6.8%	6.4%	9.4%	7.5%
1968 (1969: 77% up from 75%)	32.6%	18.0%	14.2%	22.4%	2.8%	0.0%	4.5%	5.1%
1967 (1968: 75% up from 70%)	42.3%	46.6%	23.2%	66.6%	-4.8%	-9.4%	1.1%	4.1%
1951 (1952: 92% up from 91%)	13.8%	18.1%	19.5%	9.1%	-2.7%	-4.0%	0.4%	1.5%
1950 (1951: 91% up from 84%)	45.6%	25.0%	28.1%	47.7%	2.1%	0.1%	0.7%	1.2%
1949 (1950: 84% up from 82%)	19.3%	22.7%	19.9%	26.0%	3.3%	6.3%	2.3%	1.1%
1943 (1944: 94% up from 88%)	57.5%	29.3%	28.2%	71.7%	2.8%	2.1%	2.8%	0.3%
1941 (1942: 88% up from 81%)	-1.4%	-14.6%	-12.0%	-14.6%	2.7%	1.0%	0.5%	0.1%
1939 (1940: 81% up from 79%)	5.8%	16.1%	4.9%	8.1%	4.0%	6.1%	4.5%	0.0%
1935 (1936: 79% up from 63%)	47.4%	37.2%	36.7%	55.1%	9.2%	4.9%	6.8%	0.2%
1931 (1932: 63% up from 25%)	-58.2%	-41.5%	-52.2%	-47.6%	-1.7%	-5.3%	-2.3%	1.1%
Arithmetic Average	18.2%	13.1%	10.2%	20.1%	3.4%	1.5%	3.0%	2.0%
Geometric Average	12.8%	10.5%	7.1%	14.9%	3.3%	1.4%	3.0%	2.0%
Median	23.3%	18.0%	15.1%	19.7%	2.8%	2.1%	2.3%	1.1%
Max	57.5%	46.6%	36.7%	71.7%	10.5%	8.0%	9.4%	7.5%
Min	-58.2%	-41.5%	-52.2%	-47.6%	-4.8%	-9.4%	-2.3%	0.0%
Count	13	13	13	13	13	13	13	13

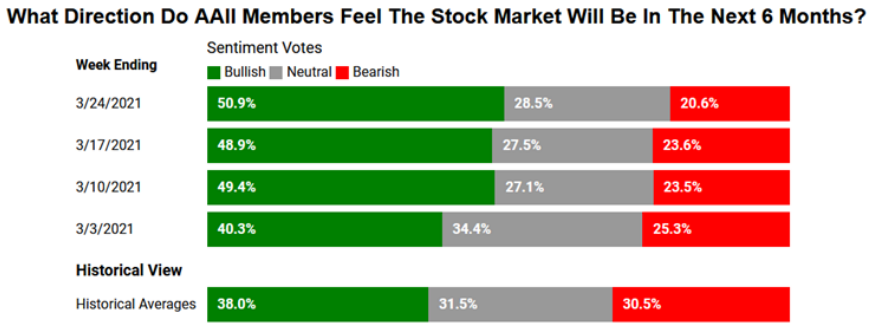
Source: Kovitz using data from Ibbotson Associates SBBI and https://www.irs.gov/statistics/soi-tax-stats-historical-table-23. From 1930 to 2020.

Nothing above provides any assurance that stocks won't react negatively to increases in inflation, interest or tax rates this year or next, but that is NOT what the historical odds suggest!

As such, while we are always braced for near-term downside volatility, especially given that the latest AAII Sentiment Survey saw the greatest level of Bullishness this year,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – OPTIMISM HITS 2021 HIGH



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 = 7.99											
BELOW	-54.0	8.0	877	0.27%	0.24%	1.28%	1.14%	3.71%	3.31%	7.00%	6.24%
ABOVE	8.0	62.9	877	0.15%	0.14%	0.47%	0.38%	1.85%	1.60%	4.48%	4.00%
Ten Groupings of 1753 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%	7.30%	6.53%
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	8.0	167	0.05%	0.02%	0.61%	0.51%	2.46%	2.20%	4.13%	3.58%
6	8.0	12.0	175	0.07%	0.05%	0.48%	0.36%	1.66%	1.41%	5.42%	5.03%
7	12.0	16.5	176	0.20%	0.18%	0.61%	0.52%	2.30%	2.05%	4.79%	4.26%
8	16.5	22.0	182	0.18%	0.17%	0.70%	0.63%	2.02%	1.75%	5.49%	5.07%
9	22.0	29.1	168	0.08%	0.06%	0.29%	0.20%	1.87%	1.59%	4.08%	3.51%
10	29.2	62.9	176	0.24%	0.22%	0.26%	0.19%	1.40%	1.17%	2.55%	2.11%

From 07.31.87 through 3.25.21. 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 24, 2021, saw the Bull-Bear Spread come in at 30.3%, up from 25.3% the week prior and the widest level of the year.

…even as the *CNN/Money Fear & Greed Index* was in neutral territory,…

FEAR & GREED INDEX…NEUTRAL DESPITE S&P 500 RECORD HIGH

There has been a lot of frothiness in "meme" stocks, cannabis companies and SPACs, and equities are near all-time highs, but the *CNNMoney* Fear & Greed Index is now modestly in the Neutral range, with overall market enthusiasm per this gauge of seven indicators tempered by Extreme Fear in Put and Call Options and Fear readings for Stock Price Strength & Stock Price Breadth.

…we remain optimistic about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks as we think equity valuations are very reasonable and dividend yields are generous given the still-very-low interest rate environment.

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 (3.08% vs. 1.68% 10-Year) and generous S&P 500 dividend yield of 1.46%.

We will close this missive with the reminder that while we seek capital appreciation first and foremost, we like that many of our holdings sport handsome dividend payouts as well.

THE PRUDENT SPECULATOR

YES, YOU CAN RETIRE ON DIVIDENDS

While dividends are not guaranteed, the low interest rate climate makes them very appealing for those seeking income...as was pointed out by this weekend's *Barron's Magazine*. We put together our own list of 25 undervalued stocks, all of which offer payouts above 3.0%.

TPS Undervalued > 3.0% Yielders

Symbol	Common Stock	03.26.21 Price	Target Price	Div Yld	Sector
CAH	Cardinal Health	$61.86	$82.17	3.1%	Health Care Equip/Srvcs
CMA	Comerica	$70.97	$89.84	3.8%	Banks
DLR	Digital Realty Trust	$142.91	$170.86	3.2%	Real Estate
DOC	Physicians Realty Trust	$18.04	$22.10	5.1%	Real Estate
GILD	Gilead Sciences	$65.24	$91.74	4.4%	Pharmaceuticals, Biotech
HFC	HollyFrontier	$36.93	$51.03	3.8%	Energy
IBM	Int'l Business Machines	$136.38	$163.98	4.8%	Software & Services
IP	Int'l Paper	$55.11	$61.47	3.7%	Materials
JNPR	Juniper Networks	$25.84	$34.33	3.1%	Technology Hardware
KEY	KeyCorp	$20.15	$25.40	3.7%	Banks
LEG	Leggett & Platt	$46.50	$54.75	3.4%	Consumer Durables
MET	MetLife	$60.82	$85.26	3.0%	Insurance
MMM	3M	$194.88	$214.97	3.0%	Capital Goods
MRK	Merck	$77.39	$106.74	3.4%	Pharmaceuticals, Biotech
NEM	Newmont Goldcorp	$61.50	$79.66	3.6%	Materials
NTR	Nutrien	$56.04	$67.24	3.3%	Materials
PFE	Pfizer	$36.25	$49.76	4.2%	Pharmaceuticals, Biotech
PNW	Pinnacle West Capital	$80.22	$104.43	4.1%	Utilities
PRU	Prudential Financial	$91.98	$130.50	5.0%	Insurance
STX	Seagate Tech	$76.02	$80.82	3.5%	Technology Hardware
T	AT&T	$30.31	$41.04	6.9%	Telecom Services
TFC	Truist Financial	$59.35	$71.13	3.0%	Banks
TOT	Total S.A.	$46.68	$74.33	5.6%	Energy
VZ	Verizon Communications	$58.18	$73.36	4.3%	Telecom Services
XOM	Exxon Mobil	$57.71	$75.19	6.0%	Energy

As of 3.26.21.

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

Chemical and materials concern **Celanese** (CE – $152.69) held its Investor Day last Thursday where it discussed the state of demand across its various markets, steps taken to improve productivity and its growth outlook for the next few years. Strong demand recovery and infrastructure build across much of the globe is expected to support healthy capacity growth within the Acetyl Chain segment for the foreseeable future. Within the Engineered Materials segment, the firm considers future mobility (electric vehicles), medical and pharma, connectivity (5G) and sustainability (consumer packaging) applications as growth areas. Management noted that 2020 earnings were roughly double those at the beginning of the past decade despite a demand shock from the pandemic and predicts the firm will earn $13.00 to $14.00 per share by 2023.

CEO Lori Ryerkerk stated, "Over the last decade, Celanese has advanced on a path to build unparalleled competitive positions, implement unique business models, and ingrain commercial excellence across the organization. We have systematically elevated the fundamental earnings and cash generation profile of the Company over this time. As a result, Celanese has generated a total shareholder return (TSR) of 271 percent over the last decade and delivered positive TSR in nine of the last ten years. Additionally, we have returned a total of $6.2 billion in cash to our shareholders over the last decade through share repurchases and dividends. Our businesses have demonstrated an ability to deliver resilient and strong performance in all environments. Following a challenging 2020 global backdrop, we entered 2021 with tremendous momentum across our businesses. Today, we will outline how we are enhancing Celanese's strategy to multiply this momentum and deliver double-digit earnings per share growth annually."

CFO Scott Richardson commented, "Organic investment is an area at Celanese that we've always been really highly scrutinizing around. We have been very disciplined about the capital that we put into our businesses. And we are going to see an increase in capital over the next several years because we need it to grow…In the Acetyl Chain, with the plans in place to continue to focus on the optionality of our businesses, we believe we're going to approach $1 billion of earnings by the time we get to 2023. And the evolution of continuing to add new capacities into our existing footprint will give us more optionality than we've had in the past. And Acetate Tow is the same as it's been in the — over the last several years. It's flat, around $250 million of earnings over the next several years despite a decline in some of our key end-use demand areas. What this adds up to is EBIT between $1.7 billion and $1.8 billion by 2023. And what that translates from a cash flow perspective is into about $4 billion to $5 billion of operating cash flow. The uses of this cash, about $1.5 billion to CapEx, as I talked about, $1 billion to dividend as we continue to grow that a little bit each year. But then we have about $1.5 billion to $2.5 billion of excess cash generation that we can deploy for either share repurchases or opportunistic M&A."

The company has typically enjoyed a cost advantage in many of its markets and has been able to push through regular price increases. Despite a 17% rally year-to-date, shares trade at an attractive 13.7 times the consensus analyst (recently increased) earnings expectation. We also note that CE generates tons of cash and has historically produced attractive returns on equity and invested capital. We appreciate the company's exposure to secular growth markets like electric vehicles and 5G through its Engineered Materials segment and think it is positioned to win from customer sustainability efforts. The dividend yield is 1.8%. Our Target Price for CE has been increased to $163.

Shares of home improvement retailer **Lowe's** (LOW – $191.61) have rallied over 19% year-to-date, on top of the Pandemic-induced 34% run in 2020. Accordingly, the multiple of earnings expected in 2021 now stands at 19.7, slightly above the 5- and 10-year historical averages for the stock. We think management's focus on sustaining higher returns on capital warrant more of a premium multiple versus the historical range, perhaps even deserving of a convergence with that of more richly valued competitor Home Depot over time.

We respect that the shifted focus on the home could wane in the coming months as vaccine proliferation enables many to resume a sense of normalcy. But we anticipate demand in the near-

term to continue as backlogs from a large number of projects (many of which have likely been on pause in recent weeks due to raging material costs) continues to unwind. In addition, interest rates remain quite low relative to history despite the shift higher in recent months and the latest stimulus payment ought to support discretionary spending for many. We continue to like that the company has invested in a shift of its store layout from product-focused to project-focused, with the expectation that the changes will create a more intuitive shopping experience for customers, and expect continued opportunity for the company in e-commerce. Nevertheless, and mindful of recent enthusiasm for the stock, we continue to evaluate potentially more compelling opportunities in the space. But for now, our Target Price has been boosted to $199.

In the middle of 2020, major publications including *PCMag* and *DigiTimes* began reporting that processor giant **Intel** (INTC – $64.87) was looking at outsourcing the manufacturing of some chips to Taiwan Semiconductor Manufacturing Company (TSMC). The news was not surprising, a relief even, given Intel's manufacturing missteps, and there was historical precedent for the move, including in 2018 when Intel outsourced 14nm manufacturing to an unnamed manufacturer (TSMC was the only foundry that had the capability, according to *DigiTimes*).

During Intel's Q4 analyst call two months ago, at-the-time incoming CEO Pat Gelsinger said of the 7nm chips, "Based on initial reviews, I am pleased with the progress made on the health and recovery of the 7-nanometer program. I am confident that the majority of our 2023 products will be manufactured internally. At the same time, given the breadth of our portfolio, it's likely that we will expand our use of external foundries for certain technologies and products." At the end of the prepared remarks, then-CEO Bob Swan was asked by an analyst, "I think maybe it was a month ago, maybe it was 6 weeks ago, where you talked about licensing or the possibility to basically license a process from a foundry rather than just strictly outsourcing to a foundry. And you said that, yes, that is actually possible that you could do that. I mean that would be quite a tectonic shift… is this something that's remotely on the table as you sort of think about this?" Mr. Swan offered a generic, non-committal response which sent analysts into a tizzy about the possibility that INTC would join the rest of the chip designers in external production for internally designed chips. No doubt, it would be a tectonic shift.

On March 23, Mr. Gelsinger offered details on the company's future plans at the company's *Intel Unleashed: Engineering The Future* presentation. He said, "When Intel initially designed 7 nanometers, EUV (extreme ultraviolet lithography) was still a nascent technology so we developed our process to limit the use of EUV, but this also increased the process complexity. As EUV then matured and became more reliable, we experienced the domino effects of our 10-nanometer delay, which pushed out 7 nanometers and ultimately, put us on the wrong side of the EUV maturity curve. Today, I'm pleased to share that we have now fully embraced EUV. We've rearchitected and simplified our 7-nanometer process flow, increasing our use of EUV by more than 100%. We have a very strong partnership with ASML, and our plans to now stay on the leading edge of EUV usage are well underway. Our technology teams are moving rapidly through process maturity. And as they do, our confidence in 7-nanometer health and competitiveness is accelerating."

Mr. Gelsinger continued, "We will also expand our use of third-party foundry capacity across our portfolio to deliver the best products in every category that we participate in. Intel's

complementary and strategic use of outside foundries is an underappreciated fact. Today, we use foundries to manufacture many products, including chips for communications, connectivity, graphics and chipsets. As we grow the business, we expect our engagement with foundries to grow in both size and scope. This includes manufacturing a range of modular tiles on advanced process technologies, including products at the core of our compute offerings for both client and data center segments. To further enable this aspect of our IDM 2.0 model, we are increasing our engagement with TSMC, Samsung, GlobalFoundries and UMC, building on our existing long-term relationships. This will provide us with increased flexibility and scale we need to optimize our road maps for cost, performance, schedule and supply, giving us a unique competitive advantage."

While Intel expects to use external foundries for some manufacturing, Mr. Gelsinger observed that the majority of semiconductor manufacturing is concentrated in Asia, which creates certain challenges and risks. To correct some of the imbalance, Mr. Gelsinger added, "We are establishing Intel Foundry Services, a fully vertical stand-alone foundry business led by semiconductor industry veteran, Dr. Randhir Thakur, reporting directly to me…We will be differentiated from other foundry offerings with a combination of leading-edge packaging and process technology, committed capacity in the U.S. and Europe available for customers globally, and a world-class IP portfolio customers can choose from, including x86 cores, graphics, media, display, AI, interconnect, fabric and other critical foundational IP, along with ARM and RISC-V ecosystem IPs."

Intel's Foundry Services have garnered interest from Amazon, **Cisco Systems** (CSCO – $52.57), Ericsson, **Google** (GOOG – $2035.55), **IBM** (IBM – $136.38), IMEC, **Microsoft** (MSFT – $236.48), **Qualcomm** (QCOM – $132.99) and others. Construction for two fabs will start later this year at the company's Ocotillo campus in Chandler, Arizona, and will cost nearly $20 billion. The company estimates that the move will create 3,000 permanent high-tech jobs, 15,000 long-term jobs in Arizona and 3,000 construction jobs. Unfortunately, best we can tell, the energy-intensive fabs are just outside of utility provider **Pinnacle West's** (PNW – $80.22) service area, but we expect the company to benefit from the generally strong economic environment in Arizona and continued growth in population.

In addition to the big fab news, Intel said it expects 2021 revenue near $72 billion with adjusted EPS around $4.55 and free cash flow of $10 billion. The $72 billion revenue number is lower than 2020's $77.9 billion and matches 2019's $72 billion figure, but the outlook was above recent analyst expectations. We are pleased with Intel's change of course and believe that the there are many benefits for manufacturing chips in the U.S. even if the cost of labor is a little bit higher than abroad. We are always concerned about intellectual property theft and keeping the manufacturing of bleeding edge technology internal is valuable in our view. Plus, there may be national security advantages in domestic manufacturing. Still, we consider Intel to be more of a turn-around story than a mature giant at this point, so it's possible that there will be additional bumps in the road as production ramps up.

We think the big fab investment supports our continued holding of chip-related companies like **Lam Research** (LRCX – $584.23), **Cohu** (COHU – $40.83) and **Kulicke & Soffa** (KLIC – $46.42), despite their somewhat stretched valuations. We believe a broader industry theme is that

chips are needed in growing numbers in every aspect of life, with many new devices enabled by technologies like 5G, Bluetooth Low Energy and broadband internet. This includes large users of chips like cars and TVs, and even toothbrushes that tell you when it's time to change the head. Lead times continue to be long for chip manufacturing, while TSMC is quickly building hugely expensive fabs (which age quickly) to accommodate the swelling demand. Our Target Price for Intel has been hiked to $73.