Market Commentary Monday, April 12, 2021

April 11, 2021

EXECUTIVE SUMMARY

Newsletter Trades – 8 Purchases Across 3 Portfolios
Week in Review – Rally Continues
Market Timing – Dow 36,000 vs. Safety Net
Sentiment – AAII Super Bullish, *CNNMoney* Modestly Bullish
Fund Flows – Inflows Into U.S. Equities, but Fixed Income Love Affair Continues
Econ News – Favorable Data; Improved IMF Outlook
Rising Inflation and Interest Rates – Value Stocks Have Performed Well
Earnings and Dividends – Both Likely to Rise Nicely this Year and Next
Wall of Worry – Always Something About Which to be Concerned
Perspective – Bursting of the Tech Bubble in 2000 was OK for Value Stocks
Stock News – Updates on LRCX, ALB & GBX

Market Review

A little housekeeping before this week's missive. As discussed in the April edition of *The Prudent Speculator*, we bought the following on Tuesday, April 6 for Buckingham Portfolio:

131 **Cardinal Health** (CAH – $60.05) at $60.915
21 **Lockheed Martin** (LMT – $386.23) at $378.9199
47 **Newmont Corp** (NEM – $61.51) at $63.20

Also, as mentioned in that same edition of *The Prudent Speculator*, we added the following to our two hypothetical newsletter portfolios on Tuesday, April 6:

Millennium Portfolio
670 **Change Healthcare** (CHNG – $22.51) at $22.38
319 **Leggett & Platt** (LEG – $47.39) at $46.89
200 **AT&T** (T – $30.04) at $30.71

PruFolio
41 **Broadcom** (AVGO – $485.09) at $483.11
278 **Comerica** (CMA – $71.49) at $71.90

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It was a terrific start and a nice end to the trading week, with Value stocks treading water in the middle three days. When the tabulations were complete, the major market averages again closed at all-time highs on Friday,…

THE PRUDENT SPECULATOR

NOT A GREAT WEEK FOR VALUE…BUT LITTLE TO COMPLAIN ABOUT

Still posting terrific gains for the week, Value stocks took another breather in the performance derby as interest rates declined, with the yield on the 10-Year U.S. Treasury retreating from recent highs.

Total Returns Matrix

Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Last 12 Months	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
0.60	-3.80	-0.74	1.24	4.89	8.18	10.00	9.49	13.84	Bloomberg Barclays Global-Aggregate Bond
0.40	-2.90	-1.81	-2.29	0.37	3.32	10.52	15.25	16.70	Bloomberg Barclays US Aggregate Bond
1.99	11.02	28.74	33.50	45.57	85.85	35.32	51.03	116.40	Dow Jones Industrial Average
1.34	10.53	29.67	36.04	46.69	86.54	30.69	39.48	79.83	New York Stock Exchange Composite
3.73	6.64	23.79	29.20	62.07	98.64	69.20	95.58	172.68	Russell 3000 Growth
1.17	**14.30**	**35.38**	**43.44**	**47.57**	89.23	**30.99**	**40.85**	**80.70**	**Russell 3000 Value**
2.44	10.33	29.32	35.95	56.00	95.10	50.85	68.42	125.33	Russell 3000
1.46	14.34	36.28	46.66	60.27	106.07	42.73	57.36	106.32	S&P 500 Equal Weighted
2.76	10.39	27.18	32.57	50.50	87.86	48.82	67.23	122.33	S&P 500
4.16	8.02	23.34	28.59	57.53	93.02	62.36	87.82	156.57	S&P 500 Growth
1.28	**13.07**	**32.10**	**37.64**	**40.49**	79.63	**32.18**	**43.77**	**84.10**	**S&P 500 Value**
3.21	6.03	24.38	30.59	59.49	101.91	50.26	64.98	127.70	S&P 500 Pure Growth
0.40	**22.74**	**51.91**	**68.83**	**71.26**	126.80	**23.05**	**26.72**	**73.07**	**S&P 500 Pure Value**

As of 04.09.21. Source Kovitz using data from Bloomberg

…adding to the massive rebound from the end of the last Bear Market on March 23, 2020,…

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.

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	112.2%	985	27	3.4	3/23/2020	4/9/2021
17.5%	67.4%	576	39	2.3	3/23/2020	4/9/2021
15.0%	67.1%	560	45	2.0	3/23/2020	4/9/2021
12.5%	44.6%	336	72	1.3	3/23/2020	4/9/2021
10.0%	35.1%	246	98	0.9	3/23/2020	4/9/2021
7.5%	23.7%	148	157	0.6	9/23/2020	4/9/2021
5.0%	14.8%	73	306	0.3	10/30/2020	4/9/2021

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 4.9.21. 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%

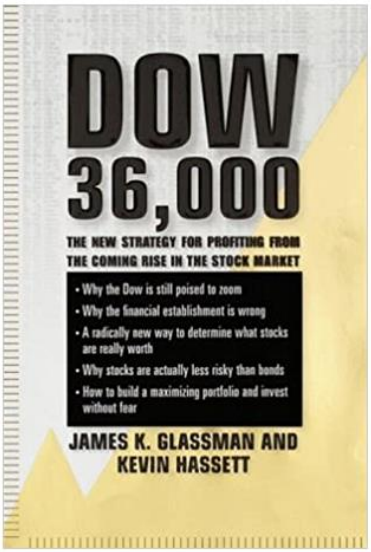
From 06.30.27 through 02.28.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

…and continuing to offer the reminder that, despite the inevitable ups and downs, some much worse than others, time in the market trumps market timing.

THE PRUDENT SPECULATOR

JAMES K. GLASSMAN – DOW 36,000 VS. SAFETY NET

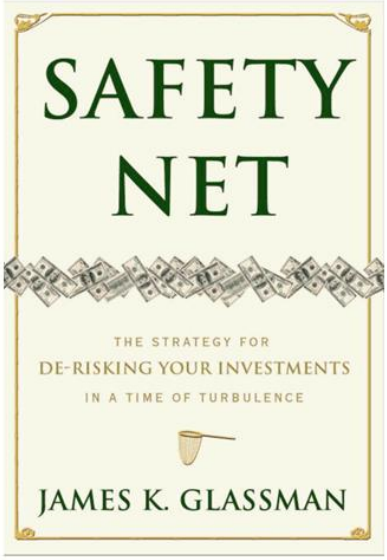
There is no assurance that the Dow Jones Industrial Average will continue its upward trajectory, but James K. Glassman's famous Dow 36,000 projection is just 6.5% away. Alas, he advised loading up on stocks at Dow 10,000 in 1999 and de-risking portfolios at Dow 12,000 in 2011...the only problem with market timing is getting the timing right.



September 20, 1999

"In theory, historical averages show that stocks are a good buy if you can hang on through the miserable periods. But most investors find that excruciatingly difficult to do—a fact that I never fully appreciated in my 30 years of writing about investing."

— James K. Glassman, February 24, 2011

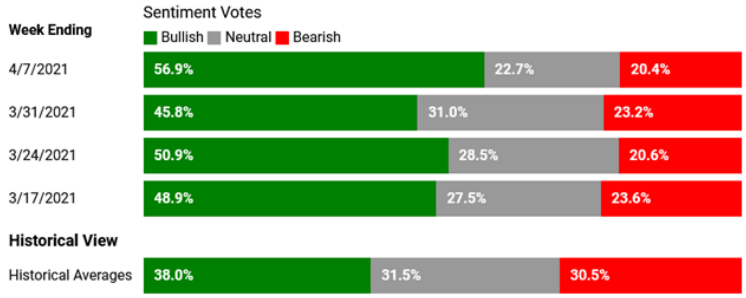


February 22, 2011

We know that many have great difficulty in maintaining faith through thick and thin, so we constantly endeavor to provide historical evidence and analysis to keep folks on the path to achieving their long-term investment objectives. This is the case when the equity market is doing poorly AND when it is performing well, as we know that these days many are concerned about heightened levels of investor optimism.

AAII SENTIMENT – OPTIMISM SOARS

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



AAII Bull-Bear Spread

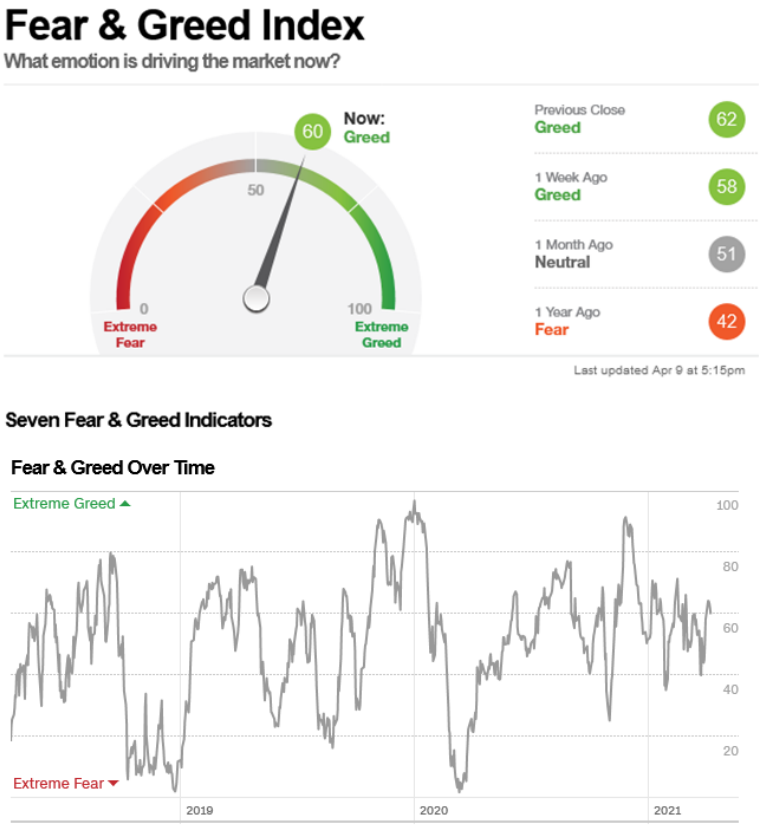
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	901	0.27%	0.23%	1.27%	1.14%	3.66%	3.27%	7.06%	6.32%
ABOVE	8.1	62.9	855	0.16%	0.15%	0.47%	0.38%	1.85%	1.60%	4.38%	3.90%
Ten Groupings of 1755 Data Points											
1	-54.0	-15.0	176	0.57%	0.50%	2.21%	1.97%	5.87%	5.31%	10.78%	9.53%
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	176	0.31%	0.28%	1.56%	1.46%	3.44%	3.05%	7.12%	6.47%
4	-1.4	3.0	183	0.09%	0.06%	1.01%	0.92%	2.76%	2.40%	5.84%	5.34%
5	3.0	8.0	191	0.04%	0.02%	0.65%	0.56%	2.42%	2.17%	4.55%	4.04%
6	8.1	12.0	152	0.09%	0.07%	0.37%	0.24%	1.53%	1.28%	4.76%	4.26%
7	12.1	16.5	176	0.19%	0.17%	0.69%	0.60%	2.42%	2.17%	5.05%	4.62%
8	16.5	22.0	181	0.18%	0.17%	0.69%	0.62%	2.03%	1.75%	5.50%	5.08%
9	22.0	29.2	170	0.06%	0.04%	0.27%	0.18%	1.82%	1.54%	4.00%	3.43%
10	29.2	62.9	176	0.28%	0.26%	0.29%	0.22%	1.43%	1.20%	2.58%	2.15%

From 07.31.87 through 4.8.21. 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, April 7, 2021, saw the Bull-Bear Spread come in at 36.5%, up from 22.6% the week prior and hitting the widest level in three years.

We respect that the AAII Bull-Bear spread, widely viewed as a contrarian measure (another nail in the market-timing coffin), is now at an arguably euphoric level that has not been witnessed since 2018. However, 34 years of market history show that stocks have still gained ground, on average, following such a supposedly worrisome tally, while another sentiment gauge is not signaling the same magnitude of enthusiasm toward equities.

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



No doubt, there is plenty of frothiness in richly valued areas of the market, but the *CNNMoney* Fear & Greed Index is still only modestly in the Greed range, with overall market enthusiasm per this gauge of seven indicators tempered by Extreme Fear in Stock Price Breadth and Stock Price Strength and Neutral readings for Put and Call Options and Market Volatility.

To be sure, we respect that *CNBC.com* warned on Friday, "Investors have put more money into stocks in the last 5 months than the previous 12 years combined," but there is a missing piece of information from the sensationalistic headline. U.S. equity mutual and exchange-traded funds have suffered massive outflows month after month, year after year, with only the occasional interruption, so even the modest inflows that we lately have been seeing will look like wild exuberance for stocks when compared to a net outflow or tiny net inflow figure.

THE PRUDENT SPECULATOR

INFLOWS INTO EQUITY FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	3/31/2021	3/24/2021	3/17/2021	3/10/2021	3/3/2021
Total Equity	7,947	2,975	53,692	21,546	-3,438
Domestic	3,773	-3,533	42,983	16,540	-429
World	4,175	6,508	10,709	5,005	-3,008
Hybrid	-144	1,194	290	81	-475
Total Bond	13,039	9,225	15,844	1,192	20,431
Taxable	11,982	7,856	13,370	-523	20,693
Municipal	1,058	1,369	2,474	1,715	-261
Commodities	-804	-266	-631	-1,952	-2,183
Total	20,039	13,128	69,195	20,866	14,336

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

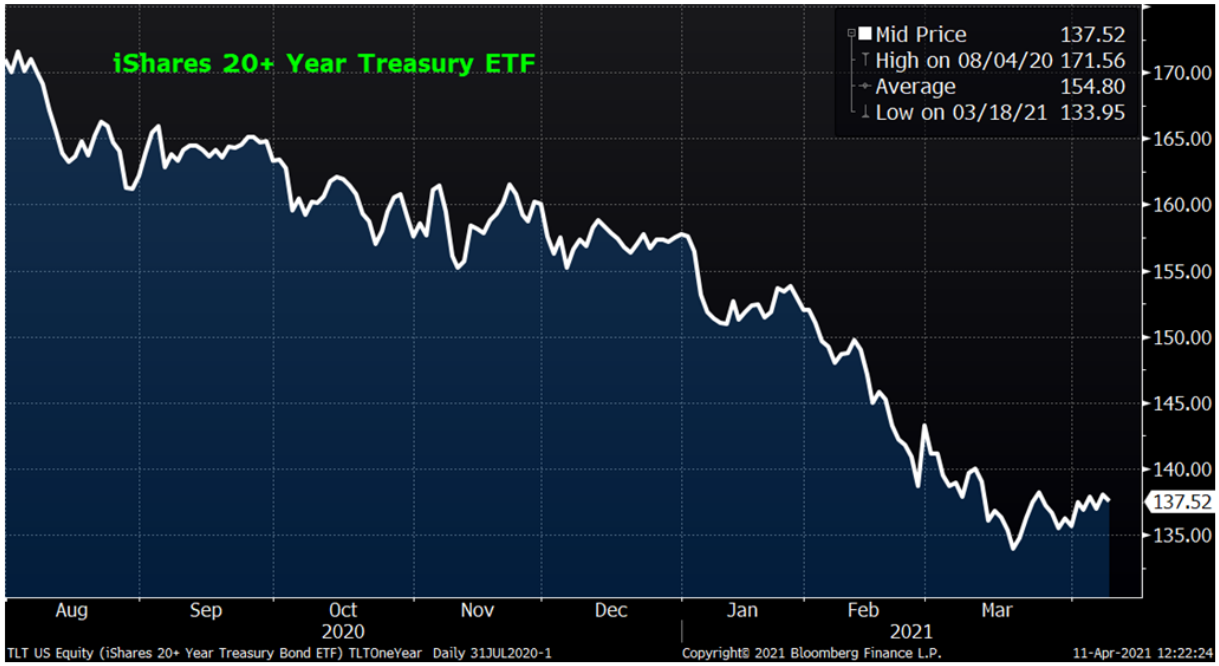
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Aug-16	-9,956	30,859	Mar-18	-22,152	14,148	Oct-19	-24,645	43,187
Feb-15	5,547	30,321	Sep-16	-5,713	24,669	Apr-18	-7,403	24,176	Nov-19	-11,716	44,480
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	93,758
May-16	-14,252	16,925	Dec-17	-9,054	19,491	Jul-19	-7,889	44,811	Feb-21	45,170	71,788
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:	-780,141	1,728,311

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. And, after stock flows turned negative again, the equal-weighted S&P 500 advanced 2.6% for the week ended 3.31.21. Meanwhile, the long-playing love affair with fixed income continues.

Frankly, we might argue that a bigger concern for most investors is all the money that continues to pour into fixed income, especially as we suspect that that exchange-traded-fund owners had no idea that a popular government-bond ETF could endure a Bear Market,…

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 eight-plus months have suffered a 18.8% loss...on a bond fund!

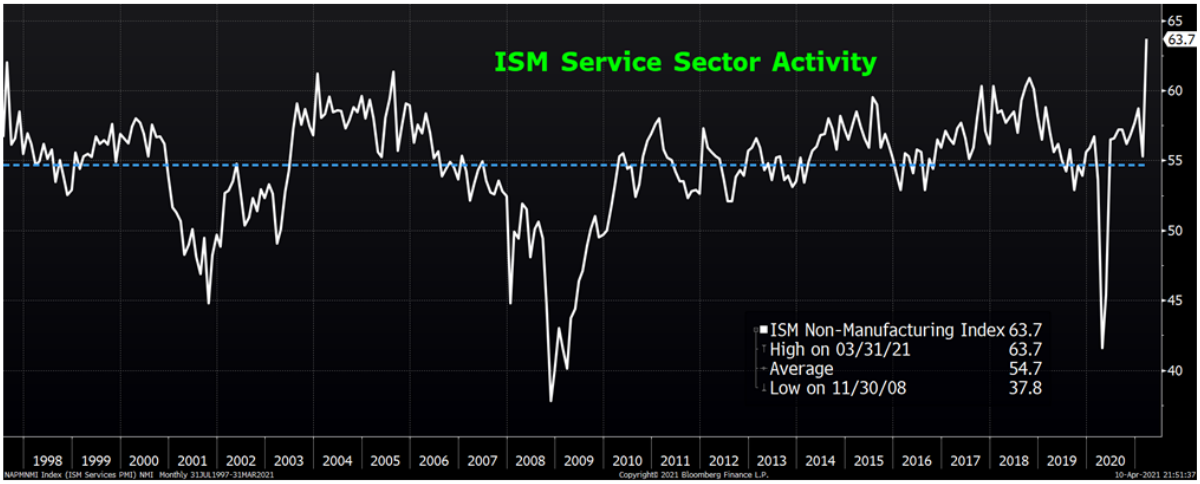


…and given that the outlook for the U.S. economy has improved considerably, with a record-high number on the ISM Non-Manufacturing Index last week,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING HITS RECORD: 5.1% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector rose to a much-better-than-expected 63.7 in March, up from 55.3 in February. The figure represents an all-time high and suggests a very healthy non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 5.1% increase in real gross domestic product (GDP) on an annualized basis."



…supporting the latest upgrade in the forecast for U.S. GDP growth for 2021 put forth last week by the International Monetary Fund,…

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from January 2021 WEO *Update*[1]		Difference from October 2020 WEO[1]	
	2020	2021	2022	2021	2022	2021	2022
World Output	**–3.3**	**6.0**	**4.4**	**0.5**	**0.2**	**0.8**	**0.2**
Advanced Economies	**–4.7**	**5.1**	**3.6**	**0.8**	**0.5**	**1.2**	**0.7**
United States	–3.5	6.4	3.5	1.3	1.0	3.3	0.6
Euro Area	–6.6	4.4	3.8	0.2	0.2	–0.8	0.7
Germany	–4.9	3.6	3.4	0.1	0.3	–0.6	0.3
France	–8.2	5.8	4.2	0.3	0.1	–0.2	1.3
Italy	–8.9	4.2	3.6	1.2	0.0	–1.0	1.0
Spain	–11.0	6.4	4.7	0.5	0.0	–0.8	0.2
Japan	–4.8	3.3	2.5	0.2	0.1	1.0	0.8
United Kingdom	–9.9	5.3	5.1	0.8	0.1	–0.6	1.9
Canada	–5.4	5.0	4.7	1.4	0.6	–0.2	1.3
Other Advanced Economies[2]	–2.1	4.4	3.4	0.8	0.3	0.8	0.3
Emerging Market and Developing Economies	**–2.2**	**6.7**	**5.0**	**0.4**	**0.0**	**0.7**	**–0.1**
Emerging and Developing Asia	–1.0	8.6	6.0	0.3	0.1	0.6	–0.3
China	2.3	8.4	5.6	0.3	0.0	0.2	–0.2
India[3]	–8.0	12.5	6.9	1.0	0.1	3.7	–1.1
ASEAN-5[4]	–3.4	4.9	6.1	–0.3	0.1	–1.3	0.4
Emerging and Developing Europe	–2.0	4.4	3.9	0.4	0.0	0.5	0.5
Russia	–3.1	3.8	3.8	0.8	–0.1	1.0	1.5
Latin America and the Caribbean	–7.0	4.6	3.1	0.5	0.2	1.0	0.4
Brazil	–4.1	3.7	2.6	0.1	0.0	0.9	0.3
Mexico	–8.2	5.0	3.0	0.7	0.5	1.5	0.7
Middle East and Central Asia	–2.9	3.7	3.8	0.7	–0.4	0.7	–0.2
Saudi Arabia	–4.1	2.9	4.0	0.3	0.0	–0.2	0.6
Sub-Saharan Africa	–1.9	3.4	4.0	0.2	0.1	0.3	0.0
Nigeria	–1.8	2.5	2.3	1.0	–0.2	0.8	–0.2
South Africa	–7.0	3.1	2.0	0.3	0.6	0.1	0.5

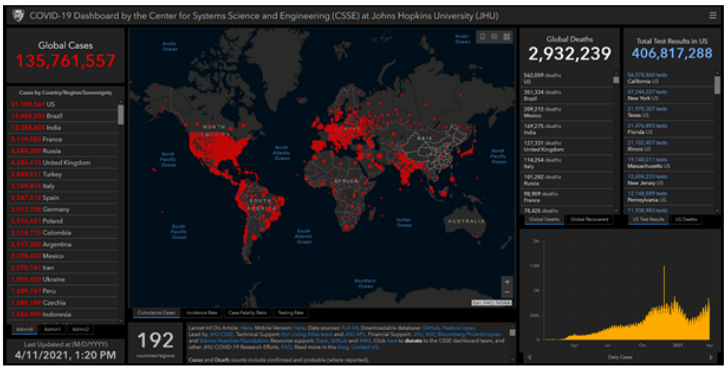
Source: IMF staff estimates.
Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during January 18–February 15, 2021. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.
1. Difference based on rounded figures for the current, January 2021 WEO Update, and October 2020 WEO forecasts.
2. Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
3. For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
4. Indonesia, Malaysia, Philippines, Thailand, Vietnam.

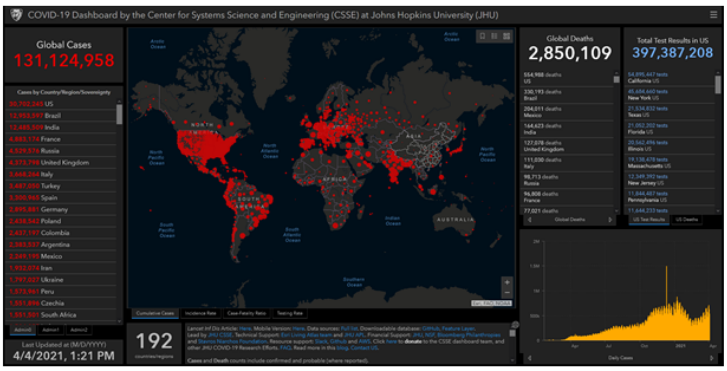
International Monetary Fund April 2021

Global growth is projected at 6% in 2021, moderating to 4.4% in 2022. The projections for 2021 and 2022 are stronger than in the October 2020 WEO. The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. High uncertainty surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions.

…with Federal Reserve Chair Jerome H. Powell stating in an interview on Sunday with CBS News' *60 Minutes*, "We feel like we're at a place where the economy's about to start growing much more quickly and job creation coming in much more quickly." Of course, Mr. Powell was quick to add, "So the principal risk to our economy right now really is that the disease would spread again. It's going to be smart if people can continue to socially distance and wear masks."

COVID-19 GLOBAL CASE AND MORTALITY RATES





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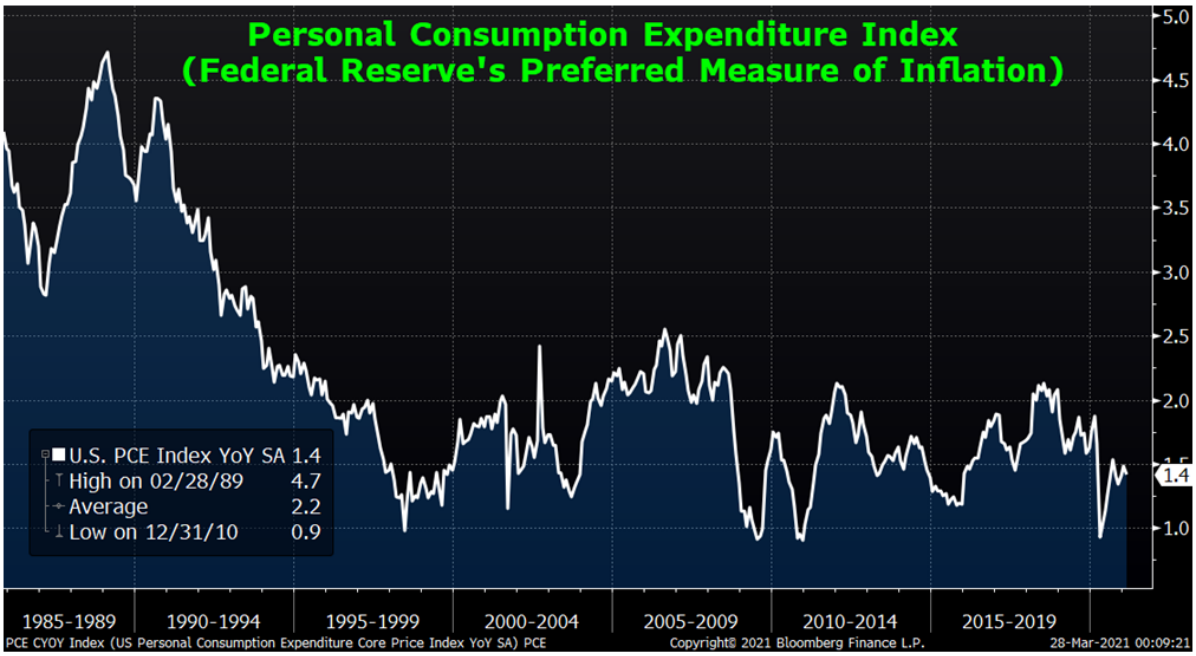
Given that more than 2.9 million have lost their lives around the world, with 562,000 of those in the U.S., there isn't much positive to say health-wise about the COVID-19 Pandemic, especially as the increase in the latest week's global new diagnoses jumped by 4.6 million. The rise in weekly fatalities also climbed by 82,000, up from 70,000 the week prior, while Italy and France imposed new Easter 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 3.1 million doses a day last week) are rising, though!

Not surprisingly, the significant growth expected this year has many concerned about inflation, with the producer price index for March rising 1.0%, well above estimates for a 0.5% advance. Of course, the Federal Reserve's preferred measure of inflation, the personal consumption expenditure (PCE), is still below, for the time being anyway, the Fed's 2.0% target,…

THE PRUDENT SPECULATOR

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.



…while history shows that the last sustained big period of inflation (1965 through 1981) ended up just fine for those following Value strategies,…

Why an Unpleasant Inflation Surprise Could Be Coming

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

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

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

Wall Street Journal, February 28, 2018

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

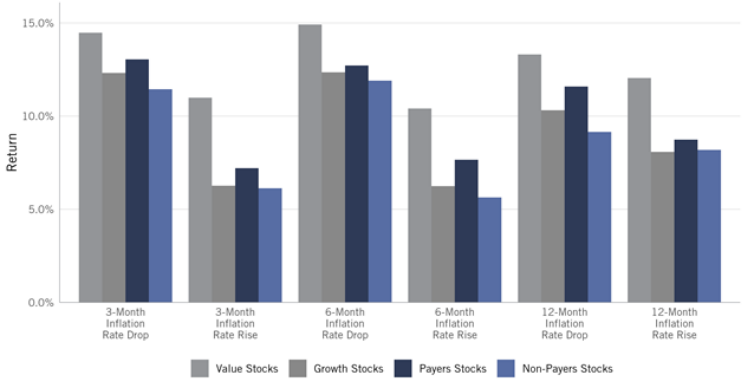
Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF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

Source: Morningstar

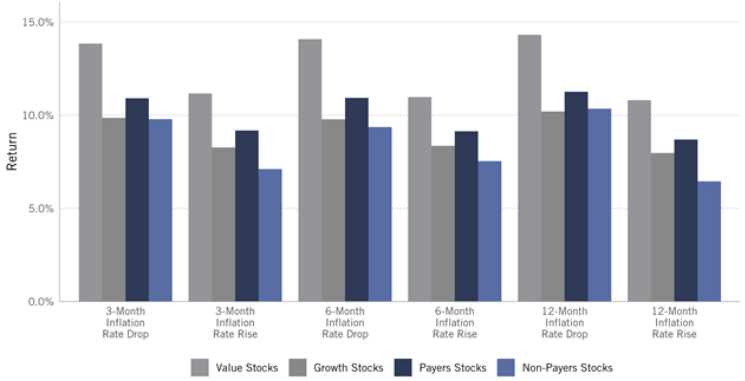
…and the same can be said when one considers shorter-term periods of rising (and falling) inflation.

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



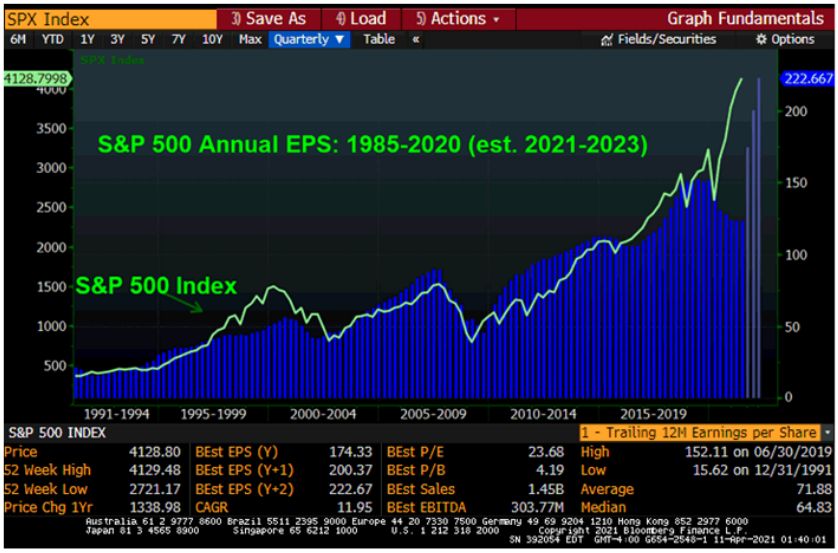
From 12.31.27 through 12.31.20. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

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.

We also can't forget that the improving economy will likely lead to a significant improvement in corporate profits this year and next,…

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	$54.13	$200.95
9/30/2022	$52.06	$194.48
6/30/2022	$48.49	$187.58
3/31/2022	$46.27	$180.68
12/31/2021	$47.66	$173.72
9/30/2021	$45.16	$164.24
6/30/2021	$41.59	$156.98
3/31/2021	$39.31	$142.18
ACTUAL		
12/31/2020	$38.18	$122.37
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 4.8.21

…which we think will support further increases in dividend payouts,…

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has raised distributions over time. Per share dividends for the S&P 500 inched up in 2020, 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 4.8.21)	117	4	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.)	$63.67
2021 (Est.)	$59.76
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

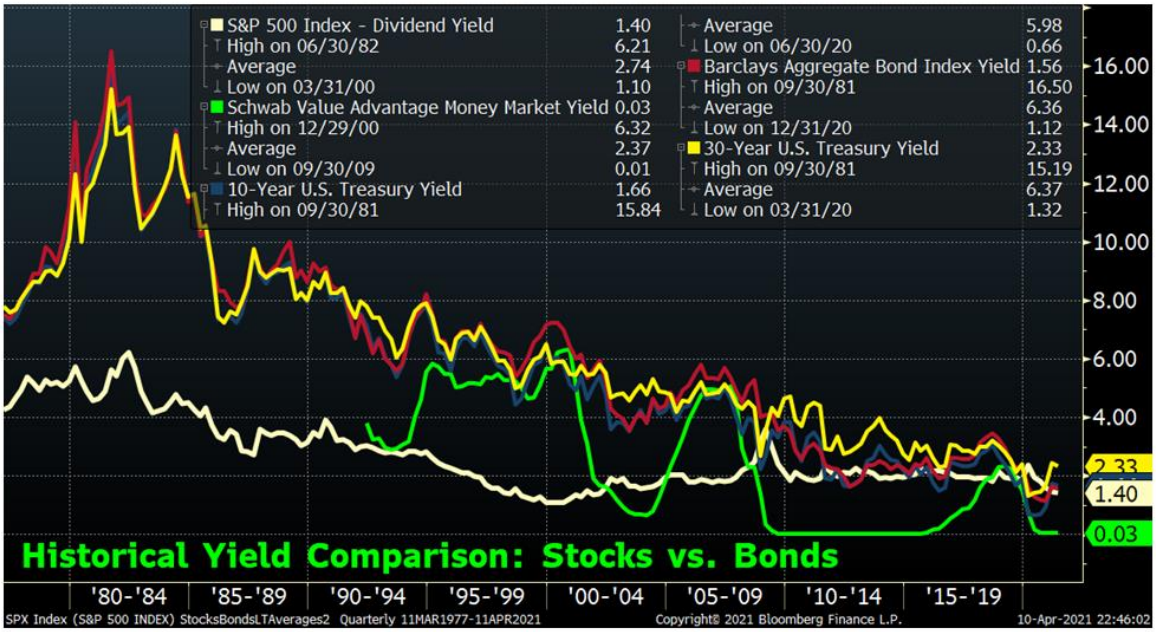
Source: Bloomberg. As of 4.9.21

…adding to the appeal of equities from an income perspective.

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 (1.40%) 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 nearly 50 times the yield of a "generous" Money Market Fund!**



True, there was also this exchange in the *60 Minutes* interview: Scott Pelley: "So all the way through the end of this year, you wouldn't see rates increasing?" Fed Chairman Jerome Powell: "I think it's highly unlikely we would raise rates… this year." But rising interest rates, on average, have led to even better returns for Value.

RISING INTEREST RATES ARE NOT GREAT FOR…BONDS

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	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	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	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.

Certainly, the sailing will not be smooth as we go forward (it seldom ever is),…

THE PRUDENT SPECULATOR

KEEP CALM AND CARRY ON

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	266%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	217%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	244%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	188%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	189%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	149%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	124%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	107%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	104%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	100%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	96%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	105%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	99%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	119%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		95%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		93%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		53%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			51%
Biden Victory	11/3/2020	3,369.16	14%					23%
Georgia Runoff	1/5/2021	3,726.86	9%					11%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**6%**	**14%**	**38%**	**70%**	**122%**

Source: Kovitz using data from Bloomberg. As of 4.9.21

…but we continue to like the reasonable valuations of our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	21.4	15.9	1.3	2.5	2.2
ValuePlus	24.0	16.5	1.6	2.5	1.9
Dividend Income	20.9	15.8	1.2	2.6	2.5
Focused Dividend Income	21.2	15.9	1.3	2.6	2.4
Focused ValuePlus	20.7	16.4	1.7	2.6	2.1
Small-Mid Dividend Value	19.6	14.9	0.8	1.8	2.1
Russell 3000	38.2	24.9	2.9	4.3	1.3
Russell 3000 Growth	47.9	33.4	4.9	11.9	0.7
Russell 3000 Value	31.8	19.8	2.1	2.6	1.9
Russell 1000	34.9	24.3	3.1	4.4	1.4
Russell 1000 Growth	42.8	31.9	5.1	12.5	0.7
Russell 1000 Value	29.4	19.6	2.2	2.7	2.0
S&P 500 Index	33.5	23.7	3.1	4.5	1.4
S&P 500 Growth Index	39.3	30.0	5.7	10.6	0.7
S&P 500 Value Index	28.9	19.3	2.1	2.8	2.1
S&P 500 Pure Value Index	20.1	12.5	0.8	1.3	2.4

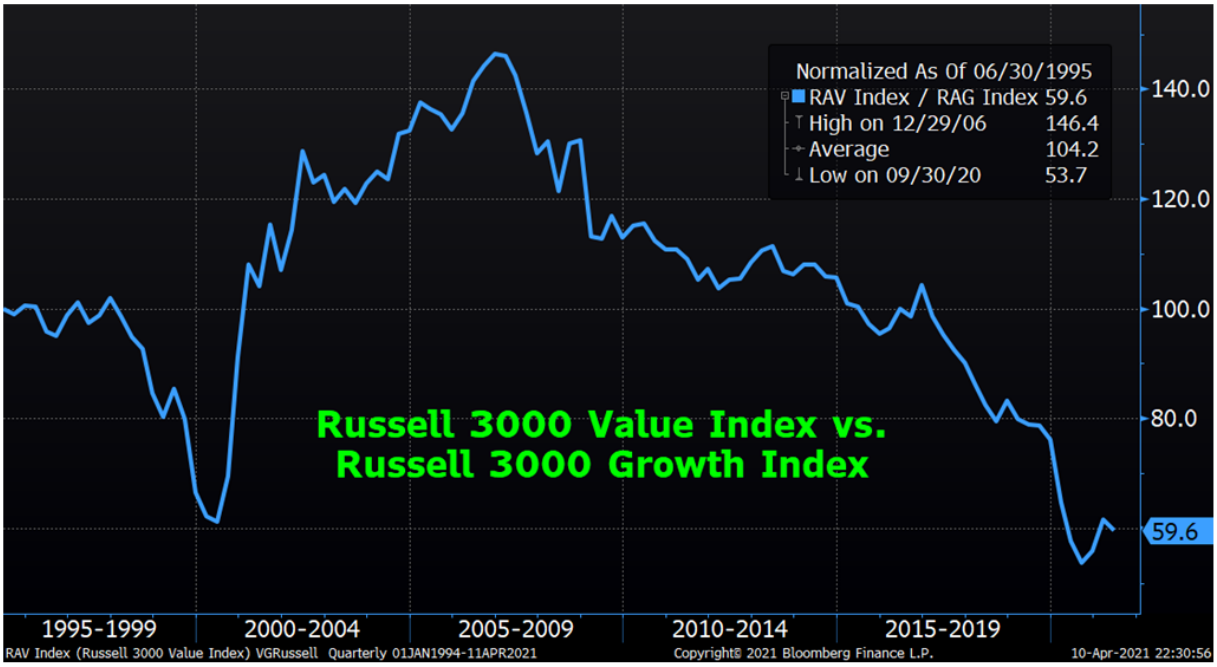
As of 04.10.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…and we think that Value remains as attractive relative to growth as it has been since the peak of the Tech Bubble,…

THE PRUDENT SPECULATOR

R3K VALUE "BUY" SIGNAL STILL LIKE 2000

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



…the bursting of which, interestingly, did not swamp all boats.

THE PRUDENT SPECULATOR

IT WOULD BE FINE IF NOW IS LIKE MARCH 2000

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

Total Returns Matrix Post March 31, 2000

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

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*. Jason Clark, Chris Quigley and Zack Tart take a look at 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.

We hiked our Target Price for **Lam Research** (LRCX – $662.00) again last week, this time to $687, as continued strength in the semiconductor space pushed prices higher. The management team of LRCX-competitor Applied Materials said during their Investor Meeting that they expect annualized growth between 8% and 9% for the industry, while Taiwan Semiconductor Manufacturing, often abbreviated as TSMC, reported double-digit revenue growth for Q1 and over 100% capacity utilization at its fabs.

We think that Lam's valuation remains fair, especially considering that net income is projected to grow over the next three years. We also note that President Biden's $1.9 trillion infrastructure plan includes a $50 billion allocation to research and production incentives for chip

manufacturing. Of course, we have previously taken money off of the table on LRCX in our broadly diversified portfolios, so we are cutting our remaining shares a little more slack before we consider an exit.

Shares of lithium and other specialty chemical producer **Albemarle** (ALB – $147.32) have trended lower since breaching $180 at the start of the year. This has been the case despite the aforementioned infrastructure legislation, with its broad plan to heavily promote the adoption of electric vehicles. As we wrote in February, Albemarle management expects lithium (a vital component required to make rechargeable batteries for electric vehicles) demand to grow over 30% per annum through 2025 to support the increased global use of electric vehicles over this period. As the world's largest producer of the metal with low-cost mines in Chile and Australia, we continue to expect ALB to benefit in a major way as the world's leading car companies race to get desirable EVs to market.

We acknowledge that the current P/E multiple of 42 times expected 2021 earnings is rich, but mining is quite capital intensive and therefore we believe near-term capital expenditures are likely to mask ALB's true earnings power as the company races to expand supply enough to meet anticipated demand over the next few years. And current analysts projections suggest that EPS will double in 2024 versus the 2021 tally.

We understand that lithium-ion batteries for electric cars are heavy and potentially more-efficient and safer solid-state batteries could be a viable alternative in the long term, but we think that such an eventuality would be far in the distance. And this weekend, two Korean companies settled a dispute over trade secrets, which will allow two plants in Georgia to move forward with plans to produce lithium-ion batteries for Ford and Volkswagen.

We also note that lithium is also used in backup and storage batteries for the power grid, so we believe there will be great demand growth in this arena. Aside from lithium production, Albemarle generates healthy profits from bromine, which is primarily used in flame retardants, and steady cash flows from its refining catalyst business. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Having already taken some money off the table earlier this year at around $162, our Target Price for ALB now stands at $193.

Shares of thinly traded **Greenbrier Companies** (GBX – $45.86) ended trading nearly 5% lower last week, even as the railcar manufacturer reported fiscal Q2 results that were better than analysts expected (-$0.28 vs. -$0.37 est.). Sales continued to fall on a sequential basis to $296 million as the company delivered nearly 33% fewer railcars in the period. Greenbrier continues to prioritize liquidity and expense control, maintaining a cash balance of $593 million and an additional borrowing capacity on its credit facility, roughly equating to a normalized quarter worth of revenue. A 4% increase over last quarter, the company boasts a backlog made up of 24,900 units valued at $2.5 billion. Greenbrier also completed the previously announced formation of its GBX Leasing joint venture, including initial funding of nearly $100 million from a new $300 million non-recourse railcar warehouse credit facility.

CEO Bill Furman was quite positive regarding legislation in progress at the federal level, "Strong consumer demand manufacturing growth and Fed policy on lower interest rates, along with low-cost funding available globally, will continue to spur economic recovery from the COVID-19 crisis. Federal stimulus spending in the U.S. is at extraordinary levels. Also, a federal infrastructure bill will provide additional stimulus for sustained growth into 2022 and probably beyond. Other bills in the work — in the works that pass should enhance U.S. job growth and further incent the construction of more efficient, environmentally-friendly railcars."

He concluded, "Our approach globally continues on course to emphasize safe operations of all of our facilities under essential industry status. We continue to plan for robust liquidity and ongoing cost containment, and to execute on the growing numbers of orders we expect while maintaining pricing discipline and control of costs, especially on steel and components. Entering the second half of our fiscal year, Greenbrier enjoys an industry-leading Manufacturing, Leasing & Services franchise on 3 continents, and we've achieved scale. Our business outlook is significantly improving, which will bring advantages from that scale. Despite the lingering uncertainty created by COVID-19, the one thing I am certain about is that our franchise will benefit strongly from all the things I've mentioned in these remarks today."

President and COO Lorie Tekorius added, "Over the last several quarters, Greenbrier has balanced rightsizing our global footprint and production capacity with maintaining our ability to respond quickly as the recovery begins. The first 6 months of the fiscal year were painful, but we're seeing improved demand in each of our markets, and we've recently restarted several production lines in North America and are poised to flex our manufacturing footprint as conditions evolve. Over the next 6 months, the manufacturing team will be focused on increasing production rates quickly and efficiently while maintaining employee safety, quality and customer satisfaction…We've well-positioned shops that serve our customer base in an efficient and safe manner, and our network is prepared for the return of more normalized activity levels later in the calendar 2021."

Despite the challenging operating environment, we continue to think consolidating acquisitions in North America and expansion abroad have strengthened the company's competitive position, added diversification and positioned GBX to benefit as industrial production picks up later in the year. We acknowledge that GBX has historically been a volatile stock and that is unlikely to dissipate going forward. But for those able to stay on the ride, Greenbrier has the potential to significantly benefit as the economy eventually hits its stride. Shares have gained a substantial 24% year-to-date, leading us to trim our positions around $46 in February. GBX currently yield 2.4% and the Target Price for our remaining shares is $53.