Market Commentary Monday, April 26, 2021

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EXECUTIVE SUMMARY

Risk – Volatility Lessons
Capital Gains & Stocks – Historical Tax Rates & Returns Data
Corporate Profits – Excellent Q1 Results
Economic News – Very Good Numbers Out Last Week
Sentiment – Optimism Still High
Fund Flows – Investors Buying Stocks…and Bonds
Valuations – Inexpensive Earnings Yield and Attractive Dividend Yields
Stock News – Updates on LRCX, STX, INTC, IBM, ABT, MAN, T, SNA, WHR, ANTM, LMT & CE

Market Review

We have often commented that we do not buy into the concept that volatility equals risk, given that our investment time horizon is three-to-five years at a minimum, with your Editor's Buckingham Portfolio now 18 years old and our flagship TPS Portfolio having recently turned 44. That does not mean that we are not concerned about trips south, but we know that 5% dips take place more than three times per year on average and 10% corrections happen more than once per year, yet stocks historically have proved very rewarding in the fullness of time for those who remember that the secret to success is not to get scared out of them.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS WIN RACE

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	112.3%	985	27	3.4	3/23/2020	4/16/2021
17.5%	67.5%	576	39	2.3	3/23/2020	4/16/2021
15.0%	67.1%	560	45	2.0	3/23/2020	4/16/2021
12.5%	44.7%	336	72	1.3	3/23/2020	4/16/2021
10.0%	35.2%	246	98	0.9	3/23/2020	4/16/2021
7.5%	23.7%	148	157	0.6	9/23/2020	4/16/2021
5.0%	14.8%	73	306	0.3	10/30/2020	4/16/2021

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 4.16.21. 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

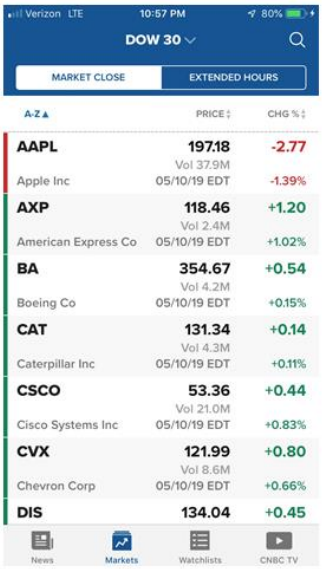
	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.5%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	9.2%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	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

Unfortunately, the wonders of modern technology make it increasingly difficult to stay focused on the long term,…

PERSPECTIVE: 24/7 ACCESS TO PORTFOLIO INFO IS A PROBLEM

Myopic loss aversion is the combination of a greater sensitivity to losses than to gains and a tendency to evaluate outcomes frequently...The investors who got the most frequent feedback (and thus the most information) took the least risk and earned the least money.



…even as we know that the chance of losing money, which is how most define risk, decreases as the holding period lengthens. That is right, unlike in Las Vegas where the longer one stays at the tables, the more the odds will favor the house, time is on the side of the equity market participant. Indeed, the longer the yardstick, the less “risky” stocks become,…

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	709	415	63.1%
3 Months	761	361	67.8%
6 Months	794	325	71.0%
1 Year	810	303	72.8%
2 Year	917	184	83.3%
3 Year	950	139	87.2%
5 Year	954	111	89.6%
7 Year	1005	36	96.5%
10 Year	971	34	96.6%
15 Year	945	0	100.0%
20 Year	885	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	713	411	63.4%
3 Months	779	343	69.4%
6 Months	808	311	72.2%
1 Year	843	270	75.7%
2 Year	938	163	85.2%
3 Year	930	159	85.4%
5 Year	979	86	91.9%
7 Year	999	42	96.0%
10 Year	970	35	96.5%
15 Year	945	0	100.0%
20 Year	885	0	100.0%

From 07.31.27 through 02.28.21. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…with the latest week providing vivid illustration as the broad-based Russell 3000 index and S&P 500 ended near where they began with very modest respective losses of 0.02% and 0.11% for the five days,…

THE PRUDENT SPECULATOR

HO HUM WEEK – STOCKS END NEAR WHERE THEY STARTED.

With Value performing a bit better than Growth, stocks took a breather over the last five trading sessions, as robust corporate profits and strong economic data faced off with Washington tax worries.

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
0.35	-2.91	0.19	2.18	5.39	9.19	11.60	11.84	16.01	Bloomberg Barclays Global-Aggregate Bond
0.13	-2.43	-1.34	-1.83	-0.05	3.81	11.19	16.84	17.66	Bloomberg Barclays US Aggregate Bond
-0.42	11.86	29.72	34.51	47.87	87.26	33.70	49.18	112.75	Dow Jones Industrial Average
0.15	12.32	31.77	38.24	51.98	89.56	31.27	39.07	75.86	New York Stock Exchange Composite
-0.11	8.35	25.78	31.28	60.08	101.82	68.04	94.02	173.55	Russell 3000 Growth
0.07	**15.74**	**37.09**	**45.24**	**54.15**	91.61	**30.60**	**39.50**	**76.27**	**Russell 3000 Value**
-0.02	11.91	31.17	37.89	57.94	97.89	50.10	66.93	122.98	Russell 3000
0.55	16.55	38.91	49.49	67.11	110.05	43.26	57.04	103.52	S&P 500 Equal Weighted
-0.11	11.80	28.80	34.26	51.92	90.26	47.81	65.67	120.34	S&P 500
-0.20	9.59	25.13	30.46	56.01	95.83	61.56	86.23	158.82	S&P 500 Growth
-0.01	**14.29**	**33.53**	**39.12**	**45.43**	81.57	**31.00**	**42.30**	**79.14**	**S&P 500 Value**
0.41	8.36	27.11	33.45	60.73	106.33	51.13	64.54	130.81	S&P 500 Pure Growth
0.08	**24.10**	**53.60**	**70.71**	**84.30**	129.33	**21.36**	**24.18**	**65.10**	**S&P 500 Pure Value**

As of 04.23.21. Source Kovitz using data from Bloomberg

…even as that latter index endured significant swings down on Monday and Tuesday, and up on Wednesday and down on Thursday and up on Friday.

VOLATILITY'S MEASURING STICK

With the S&P 500 enduring sizable single-day movements in the latest week, we find it interesting that when viewed through a full-trading-week lens, stocks had one of their quietest periods in a long time.

Despite the overall lack of much weekly movement in the major market averages, there was plenty of market-moving news during the week. Stocks took a nosedive on Thursday when it was revealed that President Biden this week will announce a plan to raise taxes on capital gains to 39.6% (and continue the 3.8% Obamacare additional levy) for people earning more than $1 million to help fund other major initiatives.

We weren't surprised by the knee-jerk reaction to dump stocks, even as Mr. Biden had said in his election campaign that he would raise taxes on the wealthy and this is just the opening salvo in what is likely to be a very contentious debate. And, we set out to do what we always do in evaluating supposedly frightening events…we crunched the numbers to see what has happened previously in years with a capital gains tax increase,…

While there is plenty of dispersion in the returns and it is difficult to draw conclusions from a data set with only 10 constituents, the historical evidence would argue that there is no need to head for the hills if Washington enacts a capital gains tax hike…and Value stocks, as is usually the case, have been the place to be.

Years With Max U.S. Long-Term Capital Gain 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: 23.8% up from 15%	41.0%	38.4%	34.1%	39.9%	-7.1%	-12.8%	-3.7%	0.0%
1987: 28% up from 20%	-4.3%	-3.1%	3.4%	-4.6%	-0.3%	-2.7%	2.9%	5.5%
1972: 35% up from 32.5%	12.5%	10.7%	16.8%	2.8%	7.3%	5.7%	5.2%	3.8%
1971: 32.5% up from 30.2%	14.5%	25.7%	14.9%	18.0%	11.0%	13.2%	8.7%	4.4%
1970: 30.2% up from 27.5%	8.2%	-13.3%	3.8%	-32.1%	18.4%	12.1%	16.9%	6.5%
1969: 27.5% up from 26.9%	-20.9%	-11.5%	-10.8%	-24.9%	-8.1%	-5.1%	-0.7%	6.6%
1968: 26.9% up from 25%	36.3%	17.5%	14.3%	20.7%	2.6%	-0.3%	4.5%	5.2%
1952: 26% up from 25%	13.9%	10.5%	14.5%	9.9%	3.5%	1.2%	1.6%	1.7%
1942: 25% up from 15%	35.6%	15.9%	20.2%	35.6%	2.6%	3.2%	1.9%	0.3%
1934: 23.7% up from 12.5%	-4.7%	23.0%	6.1%	-7.5%	13.8%	10.0%	9.0%	0.2%
Arithmetic Average	13.2%	11.4%	11.7%	5.8%	4.4%	2.5%	4.6%	3.4%
Geometric Average	11.5%	10.2%	11.1%	3.2%	4.1%	2.2%	4.5%	3.4%
Median	13.2%	13.3%	14.4%	6.4%	3.1%	2.2%	3.7%	4.1%
Max	41.0%	38.4%	34.1%	39.9%	18.4%	13.2%	16.9%	6.6%
Min	-20.9%	-13.3%	-10.8%	-32.1%	-8.1%	-12.8%	-3.7%	0.0%
Count	10	10	10	10	10	10	10	10

Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.

…and in periods where the rate has been elevated,…

Higher Tax Regimes - Max U.S. Long-Term Capital Gains Tax Rate > 23.8%: 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%	14.3%	14.6%	18.0%	4.3%	4.0%	4.5%	3.9%
Geometric Average	17.7%	12.2%	13.3%	13.5%	4.1%	3.7%	4.3%	3.9%
Median	19.8%	14.7%	14.9%	15.2%	2.8%	2.8%	2.9%	3.5%
Max	72.4%	58.2%	53.5%	90.5%	27.2%	31.7%	16.9%	11.2%
Min	-20.9%	-34.2%	-23.6%	-40.0%	-8.1%	-9.2%	-5.1%	0.3%
Count	49	49	49	49	49	49	49	49

Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.

Lower Tax Regimes - Max U.S. Long-Term Capital Gains Rate <= 23.8%: 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	12.6%	10.6%	10.5%	8.5%	9.1%	8.6%	6.3%	2.7%
Geometric Average	8.2%	7.3%	7.9%	3.7%	8.8%	8.0%	6.1%	2.6%
Median	12.9%	10.3%	12.5%	10.3%	8.8%	6.2%	6.5%	1.0%
Max	126.6%	93.1%	69.8%	73.9%	42.6%	40.4%	29.1%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-7.4%	-14.9%	-3.7%	0.0%
Count	42	42	42	42	42	42	42	42

Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.

…and when the rate has been at its highest.

STOCKS & TAXES – HIGH CAPITAL GAINS RATES…ARE OK FOR VALUE

There is a very small sample size and large extremes between max and min returns, but with President Biden supposedly about to propose a major increase to the maximum capital gains tax rate, a look at the 9 years with a burden above 30% seemingly would be germane. Happily, returns for Value stocks, on average, in those years are more than solid.

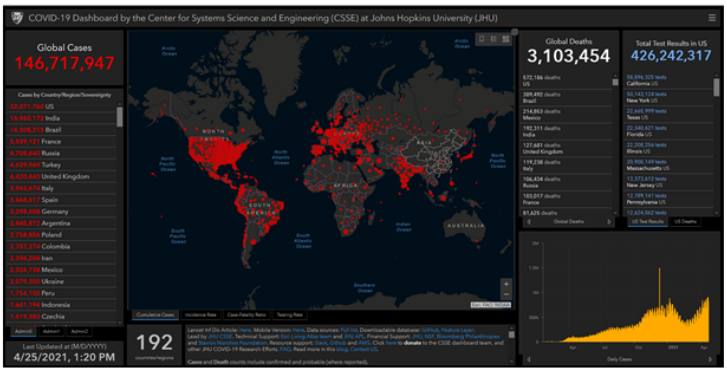
Years With Max U.S. Long-Term Capital Gains Tax Rate >= 30%

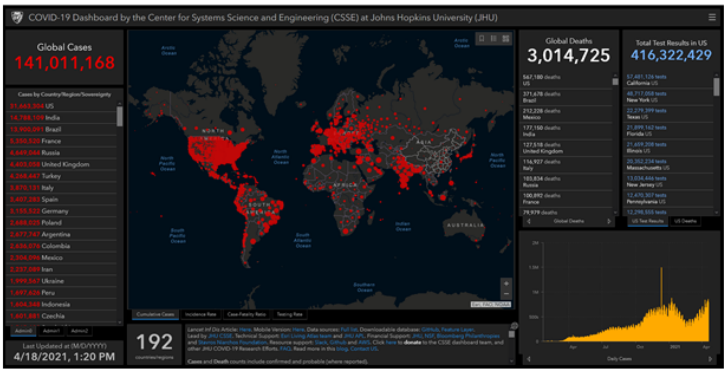
Year & Change	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
1970 (30.2%)	8.2%	-13.3%	3.8%	-32.1%	18.4%	12.1%	16.9%	6.5%
1971 (32.5%)	14.5%	25.7%	14.9%	18.0%	11.0%	13.2%	8.7%	4.4%
1972 (35%)	12.5%	10.7%	16.8%	2.8%	7.3%	5.7%	5.2%	3.8%
1973 (35%)	-16.4%	-34.2%	-16.3%	-40.0%	1.1%	-1.1%	4.6%	6.9%
1974 (35%)	-20.9%	-30.6%	-23.6%	-38.7%	-3.1%	4.4%	5.7%	8.0%
1975 (35%)	57.4%	47.6%	39.8%	64.5%	14.6%	9.2%	7.8%	5.8%
1976 (35%)	52.3%	27.6%	29.5%	38.1%	18.6%	16.8%	12.9%	5.1%
1977 (35%)	11.8%	4.0%	-2.5%	10.4%	1.7%	-0.7%	1.4%	5.1%
1978 (33.8%)	12.7%	12.9%	7.9%	28.3%	-0.1%	-1.2%	3.5%	7.2%
Arithmetic Average	14.7%	5.6%	7.8%	5.7%	7.7%	6.5%	7.4%	5.9%
Geometric Average	12.1%	2.2%	6.1%	-0.3%	7.5%	6.3%	7.3%	5.9%
Median	12.5%	10.7%	7.9%	10.4%	7.3%	5.7%	5.7%	5.8%
Max	57.4%	47.6%	39.8%	64.5%	18.6%	16.8%	16.9%	8.0%
Min	-20.9%	-34.2%	-23.6%	-40.0%	-3.1%	-1.2%	1.4%	3.8%
Count	9	9	9	9	9	9	9	9

Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.

Mark Twain said, "Courage is resistance to fear, master of fear, not absence of fear," but it certainly helps to keep calm and carry on when market history is on the side of the Value investor. Of course, while news on the COVID-19 front remains disconcerting,…

COVID-19 GLOBAL CASE AND MORTALITY RATES





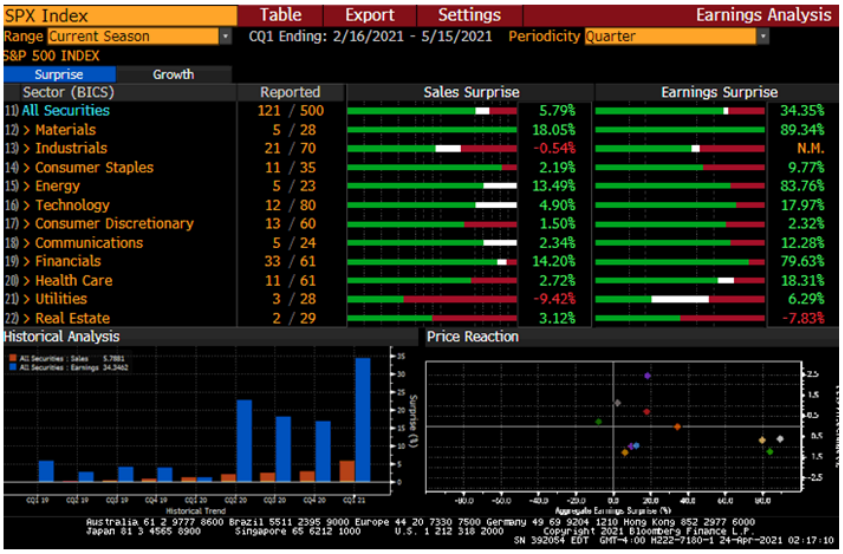
https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

Given that more than 3.1 million have lost their lives around the world, with 572,000 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 5.6 million. The rise in weekly fatalities also climbed by 90,000, versus 82,500 the week prior, while India is experiencing a second wave of cases, officials are worried about another surge in the U.S. and more contagious virus strains are making their way around the world. Vaccinations (the U.S. administered 2.8 million doses a day last week) are rising, though!

…it doesn't hurt that Q1 corporate reports have been coming in much better than expected with data provider Bloomberg calculating that of the 121 members of the S&P 500 to have announced results thus far, 75.2% have exceeded top-line guidance, while 76.0% have beaten bottom-line estimates. Meanwhile, the full-year S&P 500 EPS outlook, per Standard & Poor's itself, has jumped to $178.09, up from $173.72 two weeks ago.

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021

Q1 earnings reporting season has been good thus far, relative to analyst projections that were still too too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS were not so grand, but a significant rebound is projected this year.



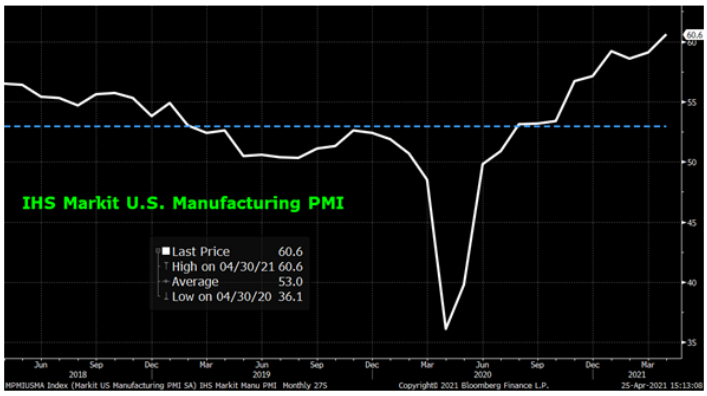
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$54.64	$202.75
9/30/2022	$52.43	$196.14
6/30/2022	$48.86	$189.30
3/31/2022	$46.82	$182.63
12/31/2021	$48.03	$178.09
9/30/2021	$45.59	$168.24
6/30/2021	$42.19	$160.55
3/31/2021	$42.28	$145.15
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

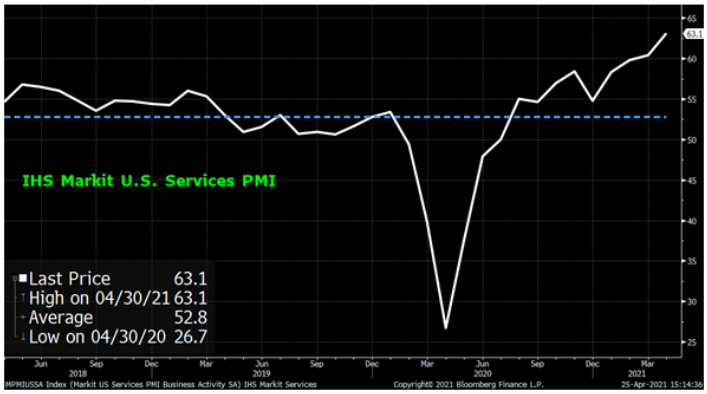
Source: Standard & Poor's. As of 4.22.21

No doubt, the better outlook for corporate profits was bolstered by the economic data out last week, whether on the improving health of the manufacturing and services sectors,…

THE PRUDENT SPECULATOR

TERRIFIC IHS MARKIT PMI'S IN APRIL



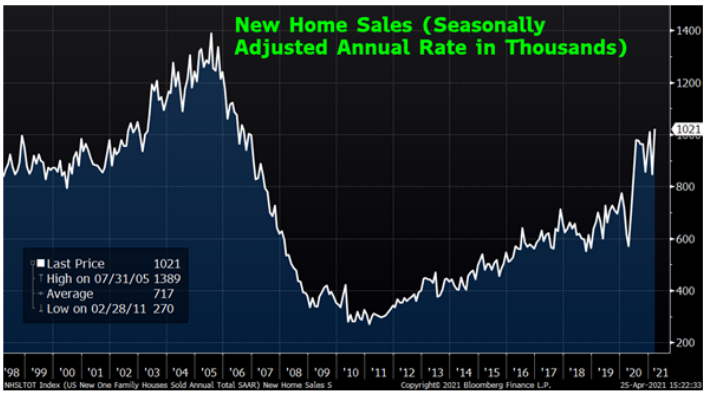


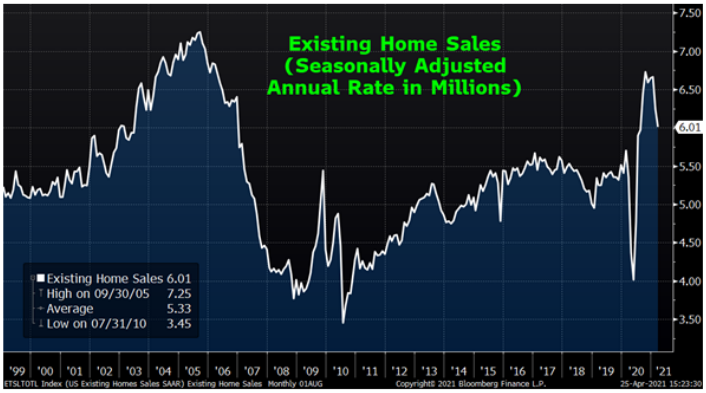
IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in April came in at 60.6 and 63.1, respectively, both hitting record highs for the relatively young data series. Information provider IHS stated, "The U.S. economy is enjoying a strong start to the second quarter, firing on all cylinders as loosening virus restrictions, an impressive vaccine roll-out, a brighter outlook and stimulus measures all helped boost demand."

…or the robust housing market,…

THE PRUDENT SPECULATOR

STRONG HOUSING NUMBERS



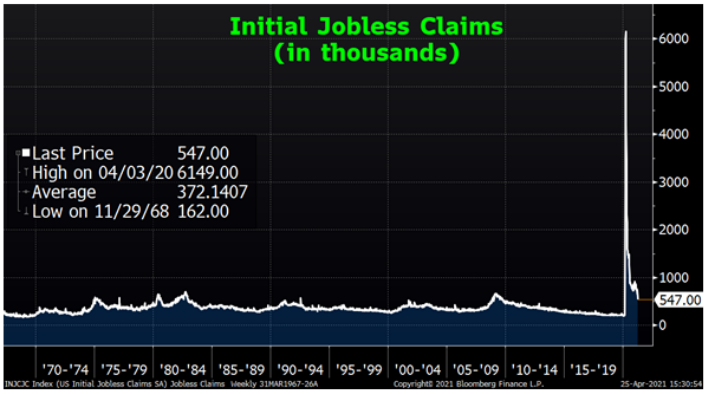


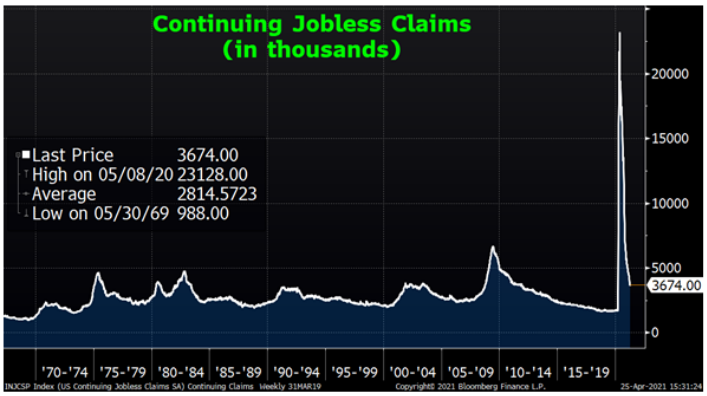
Sales of new homes for March blew away expectations, soaring to 1.02 million units, the fastest pace since 2006, while February's weather-impacted total was revised higher by 71,000 units. Meanwhile, sales of existing homes declined 3.7% in March to a seasonally adjusted annual rate of 6.01 million, but average home prices hit an all-time high of $329,100, homes were on the market for a record low 18 days and there was only a 2.1-month supply

..or even the rebounding employment situation.

THE PRUDENT SPECULATOR

SIZABLE DROPS IN FIRST-TIME FILINGS AND CONTINUING CLAIMS





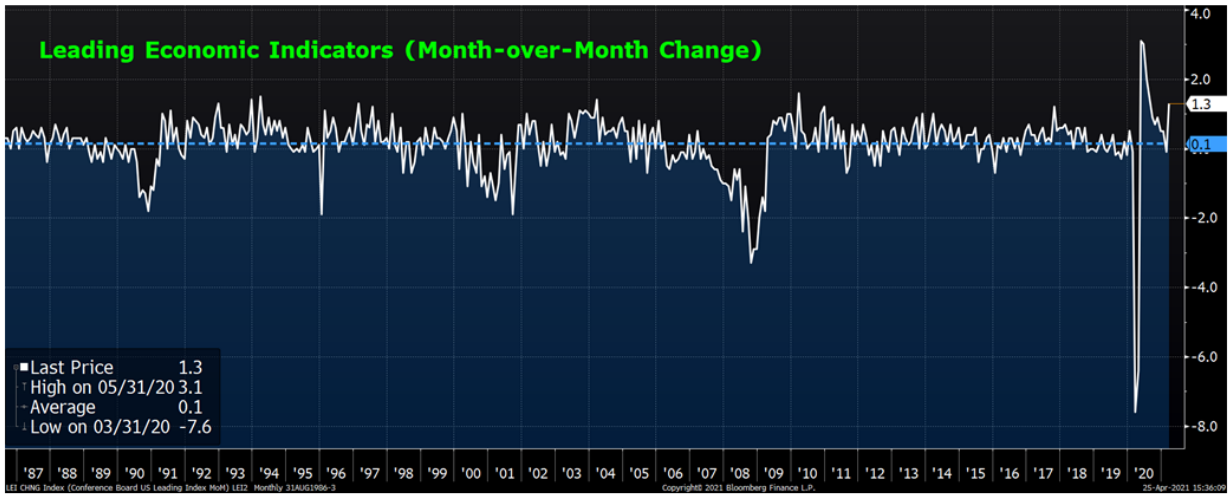
The jobs market markedly strengthened in the latest week, with new applications for unemployment benefits dropping to a seasonally adjusted and much-better-than-expected 547,000 for the period ended Apr. 17, down 39,000 from the week prior. Continuing jobless claims filed through state programs also dropped by 34,000 to a seasonally adjusted 3.67 million, a new pandemic low. Of course, 80 million unemployment claims have been filed since March 2020.

Certainly, a better U.S. economy has been baked into stock prices, but GDP growth projections continue to inch their way higher,…

THE PRUDENT SPECULATOR

LEI SOARS – 6.0% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index jumped 1.3% in March, up from a 0.1% decrease in February. The keeper of the metric stated, "The improvement in the U.S. LEI, with all ten components contributing positively, suggests economic momentum is increasing in the near term. The widespread gains among the leading indicators are supported by an accelerating vaccination campaign, gradual lifting of mobility restrictions, as well as current and expected fiscal stimulus."

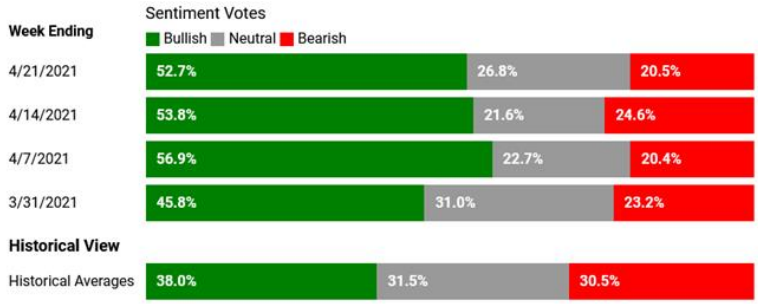


…so we remain optimistic on the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks, even as we would not be surprised by some additional near-term market turbulence, especially as our favorite investor sentiment gauge is flashing unusually high Bullish readings.

THE PRUDENT SPECULATOR

AAII SENTIMENT – OPTIMISM IN THE TOP DECILE

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%	3.67%	3.28%	7.14%	6.39%
ABOVE	8.1	62.9	857	0.16%	0.15%	0.48%	0.39%	1.85%	1.59%	4.37%	3.89%
	Ten Groupings of 1756 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	-7.3	176	0.35%	0.32%	0.92%	0.80%	3.95%	3.60%	7.20%	6.42%
3	-7.3	-1.4	176	0.31%	0.27%	1.57%	1.47%	3.42%	3.02%	7.32%	6.68%
4	-1.4	3.0	182	0.10%	0.06%	1.05%	0.96%	2.79%	2.43%	6.10%	5.59%
5	3.0	8.0	191	0.04%	0.02%	0.65%	0.56%	2.46%	2.21%	4.55%	4.04%
6	8.1	12.2	154	0.08%	0.06%	0.35%	0.22%	1.54%	1.29%	4.79%	4.29%
7	12.2	16.5	175	0.20%	0.18%	0.68%	0.59%	2.43%	2.17%	4.98%	4.55%
8	16.6	22.0	180	0.18%	0.17%	0.72%	0.64%	2.02%	1.75%	5.55%	5.13%
9	22.0	29.2	172	0.05%	0.04%	0.32%	0.24%	1.81%	1.54%	4.00%	3.43%
10	29.2	62.9	176	0.29%	0.27%	0.29%	0.22%	1.41%	1.19%	2.54%	2.11%

From 07.31.87 through 4.22.21. 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 21, 2021, saw the Bull-Bear Spread climb to 32.2%, up from 29.2% the week prior to the second widest level in three years.

Happily, from a contrarian perspective, the interest investors seem to be showing in stocks continues to pale in comparison to their affection for fixed income,…

THE PRUDENT SPECULATOR

INFLOWS INTO EQUITY FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	4/14/2021	4/7/2021	3/31/2021	3/24/2021	3/17/2021
Total Equity	11,374	12,437	7,947	2,975	53,692
Domestic	4,833	4,830	3,773	-3,533	42,983
World	6,541	7,606	4,175	6,508	10,709
Hybrid	1,155	791	-144	1,194	290
Total Bond	17,980	21,634	13,039	9,225	15,844
Taxable	15,186	19,113	11,981	7,856	13,370
Municipal	2,794	2,521	1,057	1,369	2,474
Commodities	-498	-466	-804	-266	-631
Total	30,011	34,395	20,038	13,128	69,195

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, investors have resumed their long-playing love affair with fixed income, as flows in bond funds and ETFs continue to be heavy, even as many of those instruments are in the red this year. With the major equity market averages now at all-time highs, one wonders where stocks would be if fund folks actually liked them!

…even as equities "should" be garnering far more affection.

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.10% vs. 1.56% 10-Year) and generous S&P 500 dividend yield of 1.38%.

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

Lam Research (LRCX – $627.49) reported terrific fiscal Q3 2021 numbers last week, but shares skidded more than 4% at one point on Thursday, evidently as some investors seemed to think it was a better idea to ring the register after the chip equipment maker's sensational advance this year and over the last 12 months. Lam earned $7.49 per share (vs. $6.59 est.) and had sales of $3.85 billion (vs. $3.73 billion est.). For fiscal Q4, Lam expects $4 billion of revenue (plus or minus $250 million) and around $7.50 of adjusted EPS, sizable increases over Q4 2020's figures of $2.79 billion and $4.78, respectively. The outlook was significantly better than consensus analyst projections, and those Wall Street folks were busy boosting their price targets in the aftermath.

Lam CEO Tim Archer explained, “Since our last earnings call, we have seen wafer fabrication equipment (WFE) spending plans increase for the calendar year. Our outlook for 2021 WFE is trending above $75 billion, and we now believe that WFE spending in the second half of the calendar year will be higher than the first half across all device segments. Several factors are at play in driving this robust WFE growth. First, secular tailwinds such as AI, 5G and IoT continue to strengthen. And over the past year, COVID-19-related impacts like work- and learn-from-home have accelerated adoption of these technologies. Second, the complexity of manufacturing advanced semiconductor devices continues to increase at a rapid rate, leading to a rise in equipment [capacity] across all segments. Third, innovative consumer products are incorporating more semiconductor-enabled functionality, driving faster growth in semiconductor content.”

Mr. Archer concluded, “We are in an environment where industry fundamentals continue to strengthen. The strategic relevance of semiconductors is reaching new heights, and semiconductor capital equipment is well positioned to benefit. Amid strong WFE spending, Lam is delivering great results and making foundational investments in new products and infrastructure to drive continued outperformance.”

CFO Doug Bettinger added, “We paid $187 million in dividends and allocated over $900 million towards share repurchases, tracking nicely with our committed Lam capital return plans. Further buyback in the quarter went to a structured repurchase program, which was supplemented with open market repurchases.”

While it is hard to argue that Lam’s valuation is inexpensive, given a trailing P/E ratio of 26 (the forward P/E is a much lower 20), we like that revenue, net income and earnings per share are projected to grow handsomely over the next three years. Further, we continue to have interest in the outcomes from President Biden’s $1.9 trillion infrastructure plan and believe LRCX will benefit from the ongoing chip-supply pinch. Of course, we have previously taken money off the table, so our position size is generally not large in our broadly diversified portfolios, meaning that we are comfortable maintaining this reasonably priced exposure to an industry with what we believe to be very lucrative prospects over the next few years. Our Target Price has been hiked to $713, though we add the reminder that every stock is fighting for its place amongst our holdings, so should we find a name that we like better, Lam could be a source of funds.

Hard-disk-drive maker **Seagate Technology PLC** (STX – $89.15) reported earnings per share of $1.48, versus the $1.32 estimate, in fiscal Q3 2021. STX had sales of $2.73 billion (vs. $2.68 billion est.). STX’s solid report was a result of strong cloud data center demand and a record 140 exabytes of enterprise-market HDD shipments.

STX CEO Dave Mosley said, “Cloud customers are helping drive this market expansion by investing in scale and infrastructure to support the acceleration in digital transformation in businesses worldwide as well as growing demand for AI and data analytics. Seagate’s high-capacity nearline drives are a vital component of these infrastructure investments. And we believe that our strong technology road map and focus around delivering the best total customer experience is helping drive broad adoption by the global cloud ecosystem.”

Mr. Mosley continued, “Today, customers are testing 20-terabyte HAMR drives in their production environments, which offers valuable feedback that we are factoring into our product road maps. I would highlight that through our innovation capabilities and our common platform approach, we have the flexibility to offer multiple versions of 20-terabyte drives to meet customer needs, not only with HAMR technology. We are focused on delivering solutions to customers that meet their road maps and lower their TCO and do so in a way that also drives value for Seagate. To that end, we plan to begin shipping a few versions of 20-terabyte drives in the second half of the calendar year. This quarter, we introduced new key components of our Lyve edge-to-cloud platform. We launched Lyve data transfer, enabling data movement on demand between the edge and the cloud. Lyve data transfer works seamlessly with Lyve Cloud, an object based storage-as-a-service solution delivered in collaboration with Equinix and strategically located at the metro edge.”

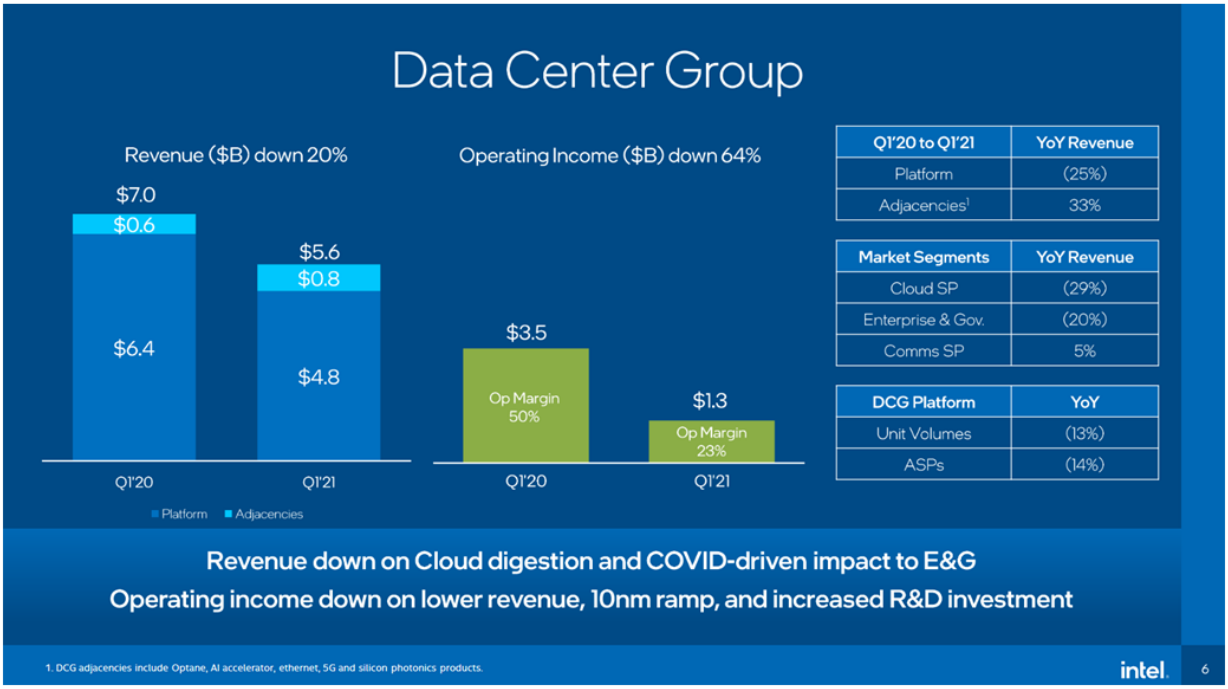
He concluded, “We are very excited about the future potential for Lyve products and services, which open a large and growing market opportunity for Seagate estimated to reach about $50 billion by 2025. However, I do want to reiterate that we are still in the early innings. We’re being deliberate in how we build out the platform and capabilities to position Seagate for long-term success. We are listening closely to customers to make sure we’re designing and evolving our services to best serve their needs, particularly as the distributed enterprise itself evolves in the growing datasphere.”

CFO Gianluca Romano added, “Looking ahead to our outlook for the June quarter. We expect revenue to be in the range of $2.85 billion, plus or minus $150 million, supported by continued strength from cloud data center and enterprise customers, along with increasing demand from VIA market. We expect non-GAAP operating margin to be at the lower end of our new long-term target range of 15% to 20% of revenue. And we expect non-GAAP EPS to be in the range of $1.60, plus or minus $0.15, representing a sequential growth of 8% at midpoint. At the midpoint of our fourth quarter guidance range, fiscal ’21 revenue would be $10.5 billion, flat year-on-year and aligned to the goal we set at the start of the fiscal year. In closing, we continue to deliver on our financial commitment and remain on track to achieve the fiscal 2021 goals we have set, while also demonstrating a clear path to meet the long-term objectives outlined at our analyst event.”

Seagate continues to generate solid free cash flow, which was $274 million last quarter, up 5% quarter-over-quarter, giving management flexibility to invest in new projects or return cash to shareholders. The company’s dividend yield stands at 3.0%, while the valuation remains very reasonable (including a forward P/E ratio around 14) and earnings are expected to grow for the foreseeable future on the strength of cloud investments. We took some STX dollars off the table earlier this year and have again bumped up our Target Price for the remaining stake to $95 as we note Mr. Mosely excited the investment community when he said on the earnings call with analysts that he expects revenue for calendar 2021 to be up at least 10% over 2020.

Shares of **Intel** (INTC -$59.24) fell more than 5% on Friday despite the semiconductor giant posting revenue and earnings that beat the analyst consensus projections. INTC earned an adjusted $1.39 per share, compared to the estimate of $1.15, and had revenue of $18.6 billion, versus the estimate of $17.7 billion. Intel also raised its full-year revenue guidance to $72.5

billion (from $72.0 billion on March 23) and said it expects adjusted EPS to come in around $4.60 (vs. $4.55 previously). The good results weren't enough to offset news of a 20% year-over-year decline in Data Center Group revenue, which management said was a result of "challenging comps."



CEO Pat Gelsinger said, "There are 4 superpowers driving digital transformation: cloud, connectivity, artificial intelligence and the intelligent edge. Intel's mission, and we are uniquely positioned to do so, is to help customers harness these superpowers to improve the lives of every human on the planet. The digitization of everything was markedly accelerated by COVID and has spurred innovation and new models of working, learning, interacting and care. Technology is increasingly central to every aspect of human existence, and semiconductors are the foundation. This is creating a cycle of explosive growth in semiconductors that will result in sustained growth for a decade or more."

Adding more color to last month's foundry news, Mr. Gelsinger said, "It's clear the industry and Intel will need more capacity to meet strong future demand, which is why we are dramatically expanding our foundry capability with Intel Foundry Services starting with a $20 billion investment for our first large-scale foundry operations in Arizona. We plan to expand other locations and establish Intel Foundry Services as a major provider of committed foundry

capacity in the U.S. and Europe while ensuring a sustainable and secure semiconductor supply for the world. Since its announcement, the industry response to Intel Foundry Services has already been incredible. We are engaged with well over 50 potential customers today. We're seeing excitement from some of the top technology giants in the world across industry verticals ranging from automotive to high-performance compute and cloud service providers."

Looking ahead, Mr. Gelsinger said, "We're confident our strategy will drive innovation and technology leadership for Intel. 7 nanometers is progressing well, and IDM 2.0 puts us on a path to restore process performance leadership and build on our industry-leading packaging technologies. With IDM 2.0, we will have superior capacity and supply resilience by leveraging our internal and external capacity and a superior cost structure. By accelerating our clock rate of innovation, we will deliver leadership products in every category. In the PC business, we will follow the successful launches of Tiger Lake and Rocket Lake with Alder Lake, which is currently sampling and will ship in the second half of this year. Within the next couple of weeks, we'll tape in the compute tile for Meteor Lake, our first 7-nanometer CPU for 2023. In the data center, we will follow the strong ramp of Ice Lake with Sapphire Rapids, which is scheduled to reach production around the end of this year and ramp in the first half of 2022. Overall, our 2023 road maps are firm and under execution and our 2024 and 2025 plans are well underway to provide unquestioned leadership products in every category we participate in. The Intel innovation machine is fired up."

Intel said it has hired more than 2,000 engineers this year and will add several thousand more by the end of 2021. The chipmaker also expects EPS for Q2 around $1.05 and revenue near $17.8 billion with a gross margin of 57%. We have been pleased with Intel's changes in the short time Mr. Gelsinger has been at the helm, and we believe that Intel's turn-around will end up being successful, even if there are significant challenges in the near term. Despite the weak reaction to Q1 numbers, INTC shares are up 19% this year and we are optimistic that the stock can build on that. Shares trade for less than 14 times forward earnings estimates, while the balance sheet is strong and the dividend yield is 2.3%. Our Target Price for INTC now resides at $73.

Int'l Business Machines (IBM – $142.43) reported adjusted Q1 2021 earnings per share of $1.77 (vs. $1.65 est.) and revenue of $17.7 billion (vs. $17.3 billion est.). The quarter's revenue report was the first with year-over-year growth since 2018, even as net income and earnings per share continued their multi-year slide, but the improved top line led to a flurry of buy orders for the stock, sending IBM's shares higher by 7% over the following four trading days.

IBM's work to spin off its Managed Infrastructure Services (MIS) business, now branded Kyndryl, is expected to be completed by the end of this year, with investors showing much more excitement for a leaner IBM than for the spun-off company. For those thinking that Kyndryl sounds more like a Pokemon character, IBM explained the meaning:

"Kyn" is derived from the word kinship, referencing the belief that relationships with people — employees, customers and partners — are at the center of the strategy, and that long-lasting relationships must be built and nurtured. "Dryl" comes from tendril, bringing to mind new growth and the idea that — together with customers and partners — the business is always working toward advancing human progress.

Returning to the latest numbers, CEO Arvind Krishna said, "In the first quarter, we posted revenue growth at actual rates and grew free cash flow. We can see signs of progress in a number of areas. Our results in Cloud & Cognitive Software and Global Business Services revenue show they are on an improved trajectory, including a return to growth in Consulting. IBM Z again demonstrated its value as an enduring platform. Meanwhile, we improved margins in our Global Technology Services, led by Managed Infrastructure Services. All of this helped to deliver free cash flow improvement, which is a key focus area. As we move through the year, we will continue to execute on the important changes we are making to the company from the acquisitions we are making to the investments to expand our partner ecosystem, to the significant overhaul of our go-to-market model that we announced back in January to the changes we're bringing to our culture to instill more of a growth mindset."

Mr. Krishna continued, "We see the hybrid cloud opportunity at $1 trillion, with less than 25% of workloads having moved to the cloud so far. We are reshaping our future as a hybrid cloud platform and AI company. For us, the case for hybrid cloud is clear. Businesses have made massive investments in their IT infrastructure and are dealing with specific constraints such as compliance, data sovereignty and latency needs in their operations. They need an environment that is not only hybrid, but a hybrid platform that is flexible, secure and built from open-source innovation. This gives them a credible path to modernizing legacy systems with advanced cloud services and building cloud-native apps. This is what we have built our platform for and why we have such confidence in our strategy."

Mr. Krishna also touched on the company's logic and packaging technology partnership with Intel, "This collaboration will be key in accelerating innovation and enhancing the competitiveness of the semiconductor industry. As we reshape our future as a hybrid cloud platform and AI company, we are continuing to use our scale, scope and trust to make an impact on important societal issues. For instance, to help tackle the climate crisis, IBM announced a Net Zero pledge by 2030. We have been transparent in that our efforts are focused on reducing actual emissions without the use of carbon assets. We also intend to use emerging technologies to remove emissions equal to our residual emissions, leveraging IBM Research to help accelerate the discovery of materials for these technologies."

IBM shares have gained 13% this year, we think on the hope that the company's turnaround effort will be consequential. Previous management long espoused the opportunity embedded in the Cloud and Hybrid Cloud markets, but competitors seemed to always grab more of the pie. Of course, taking IBM's estimation that just 25% of workloads have been moved to the cloud so far at face value, there remains plenty of opportunity for the company to make up for lost time with the right products. For our patience, we continue to collect a 4.6% dividend yield and we have raised our Target Price to $168. It's difficult to ignore the company's cheap valuation (13 times NTM consensus estimates) and we think that any IBM successes will be rewarded with both multiple expansion and earnings growth.

Abbott Labs (ABT – $123.31) turned in Q1 earnings per share of $1.32, 33% higher than a year ago as the diversified health care giant is well on track to reaching the $5.00 full-year EPS target for 2021 that was announced last quarter. Abbott's nutrition segment grew 6.4% globally year-over-year on an organic basis. The company said pantry stocking in Q1 2020 affected Q1 2021

Pediatric Nutrition sales growth comps (-2% year-over-year) but Adult Nutrition sales grew 18% over the same period. Diagnostics sales increased 115% year over year, led by strong demand for COVID-19 tests, even as we suspect some were disappointed with an 8% decline in sales from those tests compared to Q4 ($2.2 billion of sales in Q1 versus $2.4 billion in Q4) as shares sank more than 4% the morning of the release, before rebounding somewhat. Abbott is banking on a transition to at-home testing even as vaccines become increasingly available.

CEO Robert Ford explained, "It's difficult to do serial testing on PCR when you've got a cost of $100-plus and takes between 2 to 3 days to get that. So, I think we're in a great opportunity here to be able to capitalize on that. I think this is something that people are going to want to buy and have in their homes and stock up in their homes. Think of it as maybe your new element in your medicine cabinet. But we've been seeing this shift happen towards the end of last year and definitely into this quarter here, this move towards rapid. Specifically in the U.S., we've got a great position as a lot of this OTC is going to require understanding of the retail and the retail environment, the retail channel. And those are capabilities that, as you know through our Nutrition business, through our Diabetes business, we know how to operate and operate pretty well in there. So, we're excited, and I think this is going to eliminate a lot of the barriers that exist for frequent testing. A key aspect of that is obviously scale. We have to have scale to be able to meet the demand. And quite frankly, we're probably the leaders here in terms of production. We've got an established capacity this quarter now, that we can do about 150 million rapid tests per month across all of our different platforms."

Medical device sales grew 8.8% led by continued uptake in the Freestyle Libre glucose monitoring system that now boasts over 3 million users, up from 2 million a year ago. Mr. Ford added, "On average in March, U.S. procedure levels were up mid-single digits compared to pre-COVID baselines across our cardiovascular business with some areas even higher." Nevertheless, even as many pursue procedures that were delayed due throughout the pandemic, non-diabetes related device sales were the same as Q4 2020. Mr. Ford concluded, "So in summary, we're off to a very strong start and right on track with our expectations for the year. All 4 of our major businesses are achieving strong growth. We're particularly pleased with the growth contributions and momentum of several recently launched products."

Abbott is in an attractive position with its leading diagnostics franchise that has proven to be a gem over the past 12 months, and other business areas are set to rebound. The board declared the company's 389th consecutive dividend of $0.45 per share, pushing its streak of increases to 49 years and the yield to 1.5%. Shares are marginally off the high set in February but remain 13% higher on the year and are up over 42% since the end of 2019. We continue to think very highly of the firm, but given the strong share-price performance, and a P/E ratio (25 times NTM earnings estimates) at the higher end of the historical range, we are keeping a close eye on our ABT position. Having already cashed in some of our Abbott chips a while back, we have bumped our Target Price to $136.

Staffing solutions provider **ManpowerGroup** (MAN – $119.80) posted EPS of $1.11 in the first three months of 2021, blowing away the $0.67 projected by analysts. Revenue and gross profit returned to growth year over year, increasing 1% on a constant currency basis while operating margins improved 120 basis points. Of its geographical segments, Southern Europe (MAN's

largest territory, commanding 44% of revenue) showed the most improvement with revenue from Italy rising 12.5%. Management also continues to focus on speeding collections, improving the time between billing and collecting for payment by 3.7 days versus the same period last year. Shares popped over 5% the morning of the announcement and ended the week nearly 9% higher.

CEO Jonas Prising commented, "Our first quarter results reflect a continuation of the global recovery coupled with a strong execution of our strategic initiatives…And although many markets are steadily strengthening, other markets, particularly in Europe, continue to experience COVID-19-related difficulties which are resulting in the need for more restrictions and which is impacting the rate of recovery…Despite increased restrictions in many key markets, we saw improving momentum for all of our brands. The combination of technology investments and our people-first approach is allowing us to confidently manage global uncertainty, deliver locally and collaborate remotely. We are pleased with the progress made during the first quarter of 2021 and remain confident that our Diversification, Digitization and Innovation initiatives are positioning ManpowerGroup for greater profitable growth in the future."

In reference to an Employment Outlook survey the firm conducts to gauge the hiring intentions of employers around the globe, Mr. Prising concluded, "Our survey of 42,000 employers in 43 countries noted positive net employment trends across the majority of markets, a markedly different and improved outlook compared to the same time last year. 77% of employers anticipate returns to pre-pandemic hiring levels before the end of 2021, which is also a significant improvement from previous quarter surveys. Among the major markets, the U.S. topped the list in terms of overall hiring intentions for the second quarter."

Add the pandemic to the many crises Manpower has weathered throughout its 70-plus history. And while much of the world is still grappling with the virus and its variants, we appreciate management efforts to maintain solid financial footing through building cash and expense management. We continue to think that MAN's broad geographic footprint, wide range of offerings and shifts to recruitment outsourcing will provide a ramp as conditions eventually improve, and as organizations move to retrain existing employees for the changing landscape as well as hire new ones. Shares have rallied a handsome 79% over the past 12 months but are still attractively priced given EPS estimates of $6.04, $7.82 and $10.22 this year, next year and in 2023. The next dividend payment, which is paid out twice per year, is expected in May and the yield is 2.0%. Our Target Price has been raised to $137.

Integrated telecom services provider **AT&T** (T – $31.40) earned an adjusted $0.86 per share in Q1 2021, $0.08 ahead of the consensus estimate. T had sales of $44 billion, more than $1 billion ahead of the consensus estimate and $1.2 billion better than the same quarter a year ago. The WarnerMedia segment had operating revenue of $8.5 billion, topping the $7.89 billion estimate. HBO/HBO Max subscribers now total 63.9 million globally, while wireless net adds were 3.6 million with a 57.1% EBITDA margin (vs. 54.8% est.). Shares popped 4% as results were released Thursday morning.

CEO John Stankey had the following to say about T's performance, "As you see in our quarterly results, our execution has been sharp, and we have momentum. We continue to grow our customer relationships with strong subscriber growth in Mobility, AT&T Fiber and HBO Max.

We also continued to invest both in capital spending and in content. Our ability to drive costs out of our business and deliver strong cash flows has allowed us to invest in strategic growth. However, as you can see from the results, we're investing wisely. We've been deliberate and intentional in allocating dollars where they'll generate returns. This supports the future of our business, while also optimizing the returns on strategic opportunities across our portfolio. For example, cost transformation efforts in Mobility yield improved year-over-year profits, while we simultaneously invested to drive customer growth."

He continued, "Our deliberate capital allocation plan allowed us to invest and sustain our dividend at current levels, which we believe is attractive. We're prioritizing cash after dividends to reduce debt. And we continue to monetize noncore assets as we refine our overall business focus, as you saw us do in the quarter, with our announced sale of a controlling interest in DIRECTV and our other video assets… Across the board, we're encouraged by our momentum and how our management team is executing against our singular priority to grow customer relationships in our market focus areas. With that, I'll turn it over to Pascal to discuss the specifics of our first quarter results."

AT&T expects revenue to grow approximately 1% in 2021 with adjusted EPS "stable" (which we interpret to be near 2020's $3.18 figure). T expects to spend $22 billion on gross capital investment (which includes capital expenditures and cash payments for vendor financing and excludes FirstNet reimbursements), with free cash flow in the $26 billion range and a dividend payout ratio around 50%. While AT&T has a lot of debt on the books in absolute terms, the burden is not unmanageable, and the aggregate interest rate is near 3.8%. The maturity structure extends to a weighted average 16 years (nearly 20% is due in 2050 or later). We think getting rid of DIRECTV and growing HBO Max as 2021 priorities will help the company stay focused, especially as the acquisition of the former did not go to plan. We like the long-term, better-than-utility-like exposure with a yield of 6.6%. Shares trade at 10.1 times the full-year earnings estimate. Our Target Price for T has been boosted to $43.

Premium tool manufacturer **Snap-on Inc.** (SNA – $238.69) turned in EPS of $3.50 in Q1, some 15% better than the $3.06 expected by analysts and 16% higher than the figure from Q1 2019. A strong performance from SNA's signature Snap-on Tools Group, which grew sales 27% year over year, drove the overall top-line higher overall by 20% versus Q1 2020. The firm's Commercial & Industrial and Repair Systems & Information segments grew organic sales by 9.5% and 7.6%, to $345.7 and $347.6 million in the quarter, respectively. Shares rallied some 2% the day of the release but gave back ground going into the weekend.

SNA CEO Nick Pinchuk commented, "We're encouraged by our first quarter results and with the progress made since the virus first appeared during this period last year. Our performance shows significant improvements from the pandemic-shocked first quarter of 2020 and demonstrates our growing accommodation to the virus environment driving an upward trajectory. We also believe the comparisons to pre-pandemic 2019, particularly in the Snap-on Tools Group, clearly testify to the strength and resilience of our markets and operations throughout the challenges of the COVID environment, attest to the continuing opportunities along our varied and abundant runways for growth and confirm our ability to take full advantage of those possibilities. In pursuit of expanding with repair shop owners and managers, during the

quarter we completed the coherent acquisition of Dealer-FX Group, Inc. to extend our strategic visibility into new vehicle technologies and platforms, as well as to enhance our expertise and position with respect to dealership service and repair operations. We continue to build our ongoing advantage in our products, brands and people, further developing the capabilities that enabled our performance in the quarter, and that we believe, will facilitate increased progress as we move forward through 2021. Finally, I want to thank our franchisees and associates worldwide for their ongoing contributions, unfailing dedication, and continued confidence in our future."

We acknowledge that much of Snap-on's success has historically been tied to its willingness to underwrite credit to customers under favorable conditions. The chance taken on mechanics early in their trade so that they can acquire tools can cement a customer relationship for life. This strategy is not without its risks, but we note that credit losses are in line with historical experience. CFO Aldo Pagliari explained, "The 60-day plus delinquency rate of 1.6% for the United States extended credit is down 10 basis points from the first quarter last year and down 20 basis points as compared to the fourth quarter of 2020. We believe this reflects the typical seasonal delinquency pattern that customarily results in a decline in the first quarter, followed by increases later in the year, usually peaking in the fourth quarter where we compete with the technicians holiday-related discretionary spending. As it relates to extended credit or finance receivables, trailing 12-month net losses of $43.9 million represented 2.55% of outstandings at quarter end, down 7 basis points sequentially and down 44 basis points as compared to the same period last year."

We continue to think Snap-on is positioned to benefit as the North American vehicle fleet approaches 12 years in age on average and given the ever-growing need to improve technician productivity. And as the appetite for new car purchases strengthens, we expect service departments at dealerships across the country to increasingly rely on SNA's specialty tools and sophisticated diagnostic solutions. Our portfolios have certainly benefited by the stock's strong performance of nearly 40% year to date. But, given the run, we are increasingly wary that the near-term growth prospects are priced into the stock. Still, Snap-on is conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market, so we are content to hold our shares for the time being. The stock offers a reasonable dividend and a yield north of 2%, while our Target Price has been ratcheted up to $251.

Despite reporting a fantastic quarter and outlook, shares of **Whirlpool** (WHR – $238.94) gained only 1.7% last week. The appliance maker reported adjusted earnings of $7.20 in Q1, 33% above the consensus estimate of $5.41. Revenue came in at $5.36 billion, more than 10% better than the average forecast, as net sales rose by 20% in North America, 33% in EMEA, 18% in Latin America and 7% in Asia. Of course, those comparisons were easy versus the pandemic-hit year-ago period, but the company lifted its full-year adjusted 2021 guidance to a range of $22.50 to $23.50 per share and now expect free cash flow for the full year to be near $1.25 billion.

CEO Marc Bitzer commented, "Our Q1 results successfully demonstrate our agility and resilience in dealing with component shortages and inflationary pressure. Sustained strong consumer demand and our recent cost-based pricing actions give us confidence to significantly raise our full-year guidance."

CFO Jim Peters added, “We generated positive cash flow in the quarter, driven by strong net earnings and disciplined working capital management. We are pleased that we are expanding our share repurchase authorization by $2 billion and increasing our dividend for the ninth consecutive year, demonstrating our continued commitment to returning capital to shareholders.”

The increase in buyback authorization takes the outstanding amount to approximately $2.4 billion, and the increase in dividend to $1.40 per quarter represented a 12% hike, pushing the yield to 2.3%.

We continue to believe there is more potential for WHR as the U.S. housing market remains very healthy. Despite increased input costs, we can see margins widening, driven by higher selling prices with pass-through of higher material costs and fixed-cost structural reductions that should drive better profitability. Besides the North American market, the company continues to have an opportunity to drive growth in its other global markets. Our Target Price has been elevated to $281.

Shares of managed health care provider **Anthem Inc.** (ANTM – $381.95) continued their climb since our initial recommendation two months ago as a solid Q1 financial print kept investors interested in the name. Q1 revenue of $32.1 billion came in 2.8% short of expectations, but adjusted EPS of $7.01 outpaced the consensus expectation of $6.52.

Revenue was largely driven by increased premium revenue from the government business, as well as higher Medicaid and Medicare memberships and higher contributions from ANTM’s pharmacy benefit manager. Medical enrollment increased by 1.4 million members year over year and 596,000 members quarter over quarter to 43.5 million. As expected, the medical cost ratio (MCR) of 85.6% in Q1 was up 140 basis points (bps) year over year, due mainly to higher COVID-19-related costs, including testing and vaccinations. That said, the MCR was down 330 bps quarter over quarter due to an earlier-than-expected decline in COVID-19 hospitalizations resulting from faster vaccine rollouts. Management announced that it was raising its full-year adjusted EPS forecast to $25.10, up from $24.50. Prior to the boost, the analyst consensus full-year adjusted EPS estimate was $24.68, while it now sits at a still-too-low $24.98.

“Our results in the first quarter reflect strong execution and a continued focus on supporting our communities through the pandemic,” said CEO Gail K. Boudreaux. “We expect the positive momentum in the first quarter to persist through the balance of the year, driven by our commitment to delivering affordable healthcare and innovative solutions for those we serve. At Anthem, we are modernizing our business while transforming into a digitally-enabled platform for health. Our solid performance demonstrates the value we bring to the market and I am confident that we are well positioned to capitalize on future opportunities for growth.”

We want to once again note for this newer holding that Anthem is most recognizable to many as the exclusive licensee of the Blue Cross Blue Shield brand in 14 states. We know that there has been a cloud hanging over the space as many want to see what the new administration and/or regulators might do to rein in health care costs. Additionally, though currently decreasing, a layer of near-term uncertainties exists due to COVID-19 and the potential pent-up demand for elective health procedures that couldn’t be done over the last year. Despite the climb since our purchase,

we still think that Anthem is an attractive Value name with multi-year earnings growth potential, driven by the launch of the new PBM IngenioRX, countless cross-selling opportunities and the ability to use its scale for the benefit of its customers. We are intrigued by its work to align incentives with caregivers, including the creation of high-performance provider networks. Management continues to target core earnings growth of 12% to 15% over the long term. Our Target Price for ANTM shares now stands at $492.

Global defense contractor and security company **Lockheed Martin** (LMT – $377.29) reported Q1 EPS of $6.56, topping expectations of $6.30. Typically the lowest quarter of the year, revenue was $16.3 billion, a 3.8% improvement year over year. The Aeronautics segment continues to stand out (it represents 39% of total revenue), driven in large part by F-35 revenue. The company maintained its backlog of $147 billion, which gives us continued confidence in its future revenue-generating ability. Management raised its forecast for full-year 2021 cash flow by 7.2% at the midpoint.

With the federal budget top of mind for many, CEO James Taiclet commented, "We expect our cash generation to remain strong, and we can't — plan to continue our balanced cash deployment actions by investing in innovative technologies, executing our 21st century warfare strategy, providing our customers with enhanced capabilities and returning cash to stockholders. Turning to federal budgets. As a reminder, the fiscal year 2021 budget cycle marked the final year of the Budget Control Act that was originally enacted in 2011. The Department of Defense appropriations approved as part of the FY 2021 omnibus funding bill resulted in a fully funded national defense budget of approximately $740 billion. The White House recently released their preliminary budget proposal for fiscal 2022, targeting approximate $11 billion top line increase for the Department of Defense, an indication of the desire for continued stability in national security funding, and in line with our expectations."

He continued, "Similarly, the President issued an interim national security strategic guidance document, which incorporates key elements such as diplomacy, economic development, innovation, and modernizing our military capabilities into a broad framework for addressing accelerating global challenges. This guidance document places emphasis on deterrence, investments in emerging technologies such as artificial intelligence, and secure next-gen 5G infrastructure as well as the need for having strong defense and intelligence capabilities. We believe this vision is well aligned with our 21st century warfare strategy and plays to the strength of our broad portfolio and our culture of innovation at Lockheed Martin. Also in the quarter, the American Rescue Plan Act of 2021 stimulus package was enacted into legislation. This bill extended the CARES Act Section 3610 provision until September 30, 2021, enabling federal agencies to continue to reimburse contractors for the cost of keeping employees and subcontractors in a ready state as a result of the global pandemic."

LMT continues to benefit from the production ramp of the F-35 program, while international sales and additional contract wins in hypersonics, weapons systems, satellites and classified content combine to drive robust cash flow which should support continued share repurchases and dividends. We continue to like the combination of cost-plus contracts with R&D effectively paid for by customers, and believe this offers the ability to use cash flow for share buybacks and generous dividends (the yield is 2.8%). The stock has been left out of the reopening rally, but

trades with a very attractive forward P/E of 14 (lowest of defense prime-contractor peers). Analysts expect EPS to grow from $24.30 in 2020 to more than $29.00 in 2023. Our Target Price for LMT now resides at $506.

Shares of **Celanese** (CE – $157.30) ended trading last week mostly flat, even after the specialty chemicals manufacturer reported Q1 financial results that beat expectations on both the top and bottom lines. Celanese announced adjusted EPS of $3.46 (versus $3.02 est.), while revenue was $1.8 billion (versus $1.7 billion est.). Sales in Engineered Materials and Acetyl Chain segments increased 15% and 32%, respectively, while the Acetate Tow segment declined by 11%. The firm dealt with intermittent operations due to the severe winter storms in Texas as well as supply disruptions with the vessel Ever Given holding up passage through the Suez Canal. Celanese pulled together and used the downtime to accelerate previously scheduled turnarounds for its Clear Lake chemical facility and sourced alternative methods of transportation to navigate obstacles with water shipment. Operating margin improved 5.4% compared to Q4

CEO Lori Ryerkerk discussed the impact of Winter Storm Uri on the firm's markets, "Winter Storm Uri had a dramatic impact on the global acetyls supply landscape, taking three of four acetic acid production units in the US offline. By our estimates, this resulted in a reduction in global acetic acid supply of approximately 5 percent for the quarter. As soon as we decided to bring our Texas production offline, our teams immediately ramped up production rates across our global network, including Singapore and Nanjing which have been producing at full rates since. We also began immediately shipping acetic acid and VAM from Asia to our own downstream production and customers in Europe, rather than shipping from the US as is typical. Beyond this, we worked to source significant quantities of acetic acid and VAM from the market to continue to supply our customers as reliably as possible given the circumstances. The incremental cost of these actions in addition to higher energy, raw material, and logistics costs directly associated with Winter Storm Uri presented a nearly $30 million unfavorable impact to our Acetyl Chain adjusted EBIT in the first quarter. Our teams worked to offset those cost headwinds as well as the impact of lost volume following the storm via commercial actions and by leveraging our sourcing and supply chain optionality."

In her outlook for Q2, Ms. Ryerkerk continued, "Our teams have maintained the momentum with which we entered 2021 despite the challenges of Winter Storm Uri. The unique value of our global positions and unparalleled optionality, particularly within our Acetyl Chain business, was demonstrated in our first quarter performance. Demand for our Engineered Materials and Acetyl Chain products remains strong across most end markets. Amid a tightened industry landscape following the storm, we are well positioned to continue to deliver leading value. Inclusive of current industry dynamics, higher inventory costs from Winter Storm Uri, and our minimal turnaround needs due to previous acceleration of scheduled turnarounds, we expect second quarter 2021 adjusted earnings of approximately $4.00 per share, which would be an all-time record. Driven by this elevated performance across the first half, we now expect adjusted earnings of $12.50 to $13.50 per share in 2021, reflecting a moderation in Acetyl Chain industry utilization and pricing as the year progresses."

Celanese has typically enjoyed a cost advantage in many of its markets and has been able to push through regular price increases as evidenced by a 23% increase last quarter. Despite a 21% rally

year-to-date, shares trade at an attractive 13.4 times recently increased earnings expectations. Strong cash generation supported $328 million of cash returns to shareholders last quarter, including $250 million of share repurchases and $78 million of dividends, with the yield now 1.7% thanks to an increase in January. 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. Our Target Price for CE has been increased to $177.