Market Commentary Monday, May 10, 2021

May 10, 2021

EXECUTIVE SUMMARY

Newsletter Trades – 5 Buys and 1 Sell
Value Investing 101A & 101B – Buckingham MoneyShow Presentation
Week in Review – Fantastic Five Days…for Value
"Market's Greatest Worry" – Should Not be Rising Rates or Rising Inflation
Fed Speak – Jerome Powell & Co. Likely to Remain Highly Accommodative
Econ News – Mixed Data
Earnings – Q1 Numbers Continue to Impress; Outlook Raised
Valuations – Stocks, Especially Value, Still Attractive
Stock News – Updates on GM, CVS, ZBH, PFE, SIEGY, KLIC, LEG, CAH, ALL, ALB, TPR, REG & EOG

Market Review

A little housekeeping before this week's missive. As discussed on Wednesday's *Sales Alert*, we sold 578 shares of **Kohl's** (KSS – $61.80) for TPS Portfolio on Friday morning, May 7, at $62.094.

Also, as discussed in the May edition of *The Prudent Speculator*, we added the following to our hypothetical portfolios on Thursday, May 6.

PruFolio
538 **Cohu** (COHU – $38.86) at $37.15

Millennium Portfolio
150 **Hasbro** (HAS – $99.15) at $99.79
57 **Alaska Air Group** (ALK – $67.90) at $67.02
63 **Bristol-Myers Squibb** (BMY – $64.44) at $64.60
34 **Synchrony Fin'l** (SYF – $45.90) at $45.04

One more reminder that your Editor will be presenting at the upcoming *MoneyShow Virtual Expo* on Tuesday, May 11, 2021 – 2:00 pm to 4:00 pm EDT.

The MoneyShow folks do charge for this event, a two-hour presentation titled *Value Investing 101A & 101B*, but we think it will be well worth the price of admission.

Click here for more information: https://online.moneyshow.com/2021/may/virtual-expo/speakers/1149spk/john-buckingham/?scode=052902

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Hope everyone had a great Mother's Day!

Rare is the week in which Value or Growth wins the performance race each day, but the five trading days just ended were spectacular on a relative basis for the kind of stocks we have long championed. Indeed, the Russell 3000 Value index outperformed its Growth counterpart by 393 basis points. Even better, the absolute return score was a hefty 2.81% for the Value benchmark, compared to a drop of 1.12% for the Growth benchmark.

THE PRUDENT SPECULATOR

SENSATIONAL FIVE DAYS…ESPECIALLY FOR VALUE

It was quite a divergence in returns in the week just ended as Growth stock indexes ended in the red, while the Value benchmarks enjoyed fantastic absolute and relative performance.

Total Returns Matrix

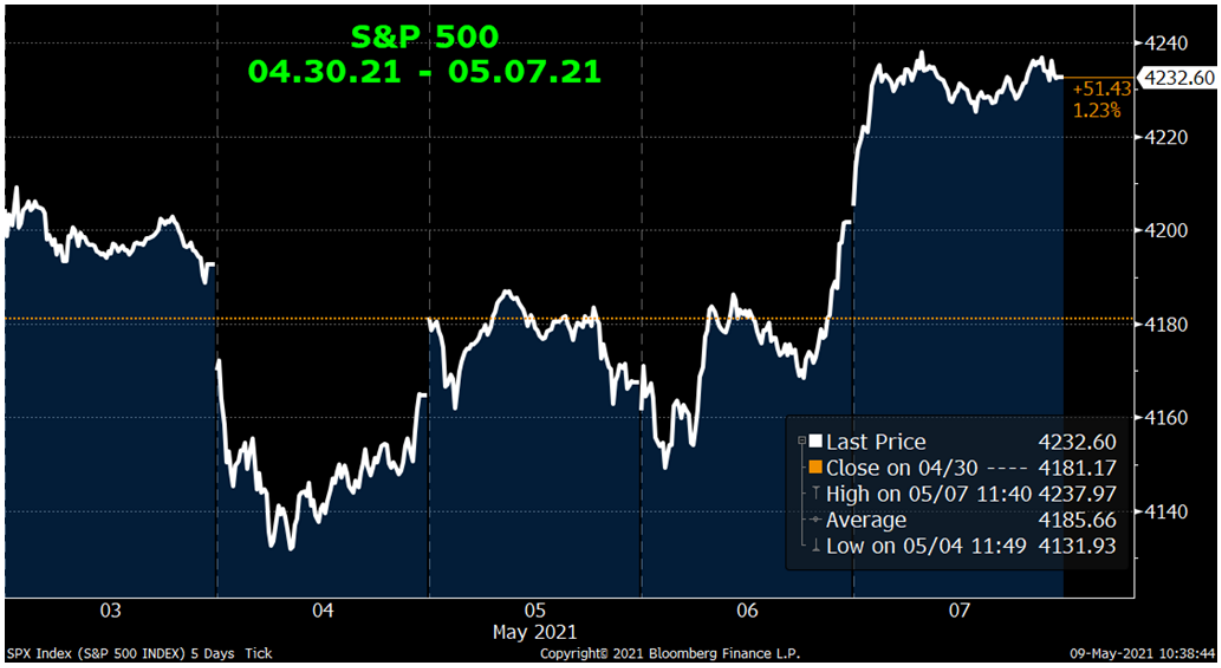
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Last 12 Months	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
0.64	-2.64	0.46	2.46	5.44	9.48	11.14	13.06	21.78	Bloomberg Barclays Global-Aggregate Bond
0.28	-2.34	-1.24	-1.73	0.17	3.91	10.54	16.80	32.00	Bloomberg Barclays US Aggregate Bond
2.72	14.33	32.58	37.48	48.73	91.40	40.29	53.04	257.00	Dow Jones Industrial Average
2.32	15.04	34.97	41.60	52.69	94.16	36.63	43.38	183.94	New York Stock Exchange Composite
-1.12	6.55	23.68	29.09	49.44	98.46	68.17	88.27	398.16	Russell 3000 Growth
2.81	**19.47**	**41.51**	**49.92**	**56.83**	97.79	**36.52**	**45.31**	**220.39**	**Russell 3000 Value**
0.84	12.77	32.18	38.95	53.56	99.42	53.56	67.79	306.41	Russell 3000
2.30	19.46	42.38	53.22	65.33	115.29	49.59	61.64	293.93	S&P 500 Equal Weighted
1.26	13.25	30.48	36.01	49.35	92.74	52.26	67.61	307.04	S&P 500
-0.30	8.81	24.24	29.53	47.70	94.43	62.76	82.28	378.50	S&P 500 Growth
2.95	**18.29**	**38.20**	**43.99**	**49.59**	87.93	**38.22**	**49.26**	**229.73**	**S&P 500 Value**
-1.53	4.49	22.57	28.69	45.46	98.96	48.76	56.52	331.02	S&P 500 Pure Growth
5.03	**32.26**	**63.69**	**81.93**	**90.91**	144.39	**31.87**	**34.94**	**261.41**	**S&P 500 Pure Value**

As of 05.07.21. Source Kovitz using data from Bloomberg

Of course, the week was filled with plenty of drama, with stocks nosediving on Tuesday following comments from Treasury Secretary Janet Yellen, who was asked if the economy could handle the robust spending that the Biden Administration is proposing. Her response, "It may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy," supposedly spooked investors…for an hour or so anyway, as the S&P 500 quickly bounced back and ended the week nicely higher.

THE MARKET'S GREATEST WORRY?

Stocks headed south on 05.04.21, when Treasury Secretary Janet Yellen suggested that interest rates may have to "rise somewhat" to ensure the "economy doesn't overheat," but the downturn was very short lived.



Interestingly, *The Wall Street Journal* was quick to publish a piece, *Yellen's Interest-Rate Comment Illustrates the Market's Greatest Worry*, in which it was asserted, "The possibility of a bond-market tantrum or higher inflation has supplanted pandemic-related concerns." Anything can happen, to be sure, as equities do not always go up, even as the long-term trend has been markedly higher, especially for Value stocks,…

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%	112.4%	986	27	3.4	3/23/2020	5/7/2021
17.5%	67.5%	576	39	2.3	3/23/2020	5/7/2021
15.0%	67.2%	560	45	2.0	3/23/2020	5/7/2021
12.5%	44.7%	337	72	1.3	3/23/2020	5/7/2021
10.0%	35.2%	246	98	0.9	3/23/2020	5/7/2021
7.5%	23.7%	149	157	0.6	9/23/2020	5/7/2021
5.0%	14.8%	73	306	0.3	10/30/2020	5/7/2021

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 5.7.21. 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	10.7%	18.1%
Non-Dividend Paying Stocks	9.2%	29.4%
Long-Term Corporate Bonds	6.0%	7.6%
Long-Term Gov't Bonds	5.4%	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 03.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…while we know that there was consternation (aka “Taper Tantrum”) back in 2013 when then-Chair Ben Bernanke hinted that the Federal Reserve might soon scale back its accommodative stance toward monetary policy.

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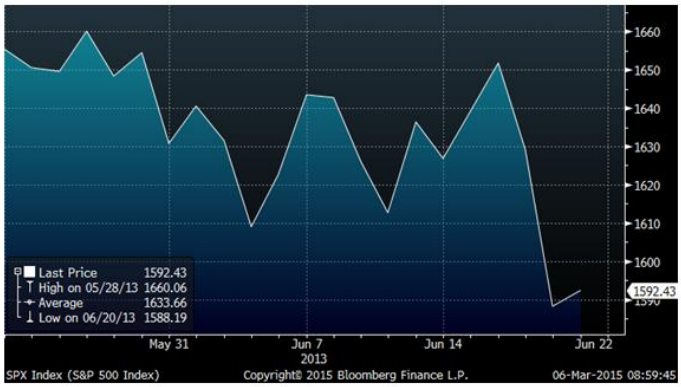
2013 "TAPER TANTRUM" WARNING

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



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

Still, it is fascinating that the sharp equity market drops for both the indication in 2013 that a tapering of the Federal Reserve's bond buying program might happen and the actually tapering taking place in 2014 under Chair Yellen's watch were quickly recouped and solid gains posted in both years. And, as the charts above and below illustrate, the S&P 500 back then was at levels less than half the current 4232.60 reading.

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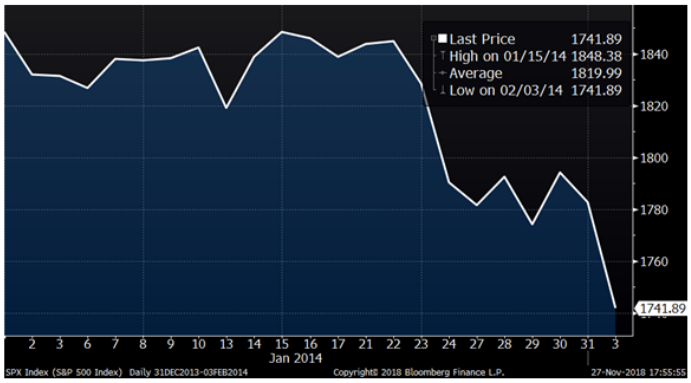
2014 "TAPER TANTRUM" REALITY

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



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

No guarantees that history will repeat, but it is important to note that rising interest rates over the last nine decades, on average, have not shown to be a headwind for equities, though the same cannot be said 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.

…yet the masses continue to pile into fixed income, at least in terms of mutual and exchange traded fund flows.

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INFLOWS CONTINUE INTO BOND FUNDS

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

Week Ended	4/28/2021	4/21/2021	4/14/2021	4/7/2021	3/31/2021
Total Equity	-22,418	8,425	11,379	12,416	8,198
Domestic	-17,833	426	4,838	4,810	4,023
World	-4,585	7,999	6,541	7,606	4,175
Hybrid	1,291	823	1,155	791	-144
Total Bond	19,152	17,378	18,005	21,634	13,038
Taxable	16,299	14,421	15,211	19,113	11,981
Municipal	2,853	2,957	2,794	2,521	1,057
Commodities	119	-161	-498	-466	-804
Total	-1,856	26,464	30,041	34,375	20,287

Source: Investment Company Institute

While there have been modest net inflows into U.S. equity funds in recent weeks, save the latest, the long-playing investor love affair with fixed income remains intact, per data on flows for stock and bond mutual and exchange traded funds as calculated by the Investment Company Institute. With the major equity market averages now near all-time highs, one wonders where stocks would be if fund folks actually liked them!

Investment Company Institute
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows
Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Aug-16	-9,956	30,859	Mar-18	-22,152	14,148	Oct-19	-24,645	43,187
Feb-15	5,547	30,321	Sep-16	-5,713	24,669	Apr-18	-7,403	24,176	Nov-19	-11,716	44,480
Mar-15	-1,494	4,905	Oct-16	-23,109	13,855	May-18	10,068	11,749	Dec-19	-27,500	50,733
Apr-15	-34,681	11,027	Nov-16	22,993	-13,289	Jun-18	-21,004	16,995	Jan-20	-24,544	73,855
May-15	-17,287	5,010	Dec-16	18,859	-4,142	Jul-18	1,007	22,495	Feb-20	-28,220	25,064
Jun-15	-7,023	6,324	Jan-17	5,097	31,037	Aug-18	-6,660	17,219	Mar-20	-7,485	-273,714
Jul-15	-14,864	-1,255	Feb-17	17,613	33,991	Sep-18	886	18,526	Apr-20	2,664	14,672
Aug-15	-18,569	-18,122	Mar-17	9,411	36,562	Oct-18	-9,657	-27,700	May-20	-20,929	73,166
Sep-15	-4,725	-10,849	Apr-17	-8,266	22,064	Nov-18	2,783	-7,459	Jun-20	-24,819	100,103
Oct-15	-807	15,397	May-17	-10,725	33,070	Dec-18	-28,953	-49,512	Jul-20	-46,524	98,490
Nov-15	654	-5,573	Jun-17	-7,944	29,372	Jan-19	-21,195	29,308	Aug-20	-57,594	84,113
Dec-15	476	-25,043	Jul-17	-12,518	29,139	Feb-19	3,632	45,138	Sep-20	-28,900	51,000
Jan-16	-27,222	7,686	Aug-17	-22,771	25,078	Mar-19	-3,654	38,412	Oct-20	-52,484	63,918
Feb-16	-9,108	11,915	Sep-17	-9,775	33,440	Apr-19	-5,307	40,565	Nov-20	41,143	58,854
Mar-16	7,711	29,296	Oct-17	3,166	36,110	May-19	-24,652	21,332	Dec-20	-34,003	76,186
Apr-16	-12,610	22,114	Nov-17	-4,417	19,788	Jun-19	-11,997	39,771	Jan-21	-37,318	93,758
May-16	-14,252	16,925	Dec-17	-9,054	19,491	Jul-19	-7,889	44,811	Feb-21	45,116	71,788
Jun-16	-15,530	16,623	Jan-18	10,778	46,287	Aug-19	-29,908	22,304	Mar-21	53,210	51,293
Jul-16	292	33,575	Feb-18	-41,444	2,706	Sep-19	-4,650	38,482	Totals:	-726,985	1,779,604

We respect that higher inflation is also a major concern these days, but the long-term evidence suggests that stocks have performed fine, on average, whether the inflation rate is rising or falling,…

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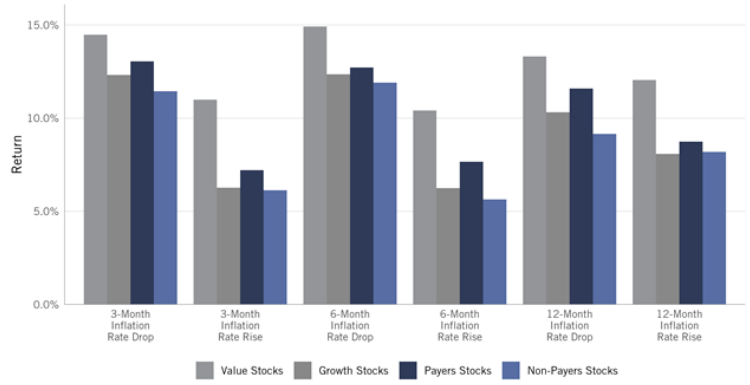
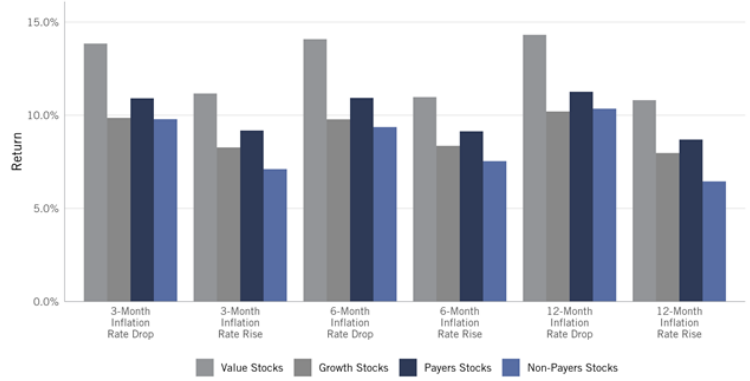
INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



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.

…with even the terribly inflationary environment from 1965 to 1981 illustrating the merits of keeping Value stocks dominant in one's asset allocation.

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

Not surprisingly then, we lose little sleep over the threat of higher interest and inflation rates, though we recognize that Ms. Yellen was quick to walk back her rate hike comments, stating, "Let me be clear, it's not something I am predicting or recommending." In addition, there was plenty of chatter from Federal Reserve officials on May 5, all of which seemed to echo the response to a question Chair Jerome H. Powell gave at his press conference the week prior that the Fed is still not even talking about talking about raising interest rates.

FEDERAL RESERVE TAMPING DOWN OVERHEATING FEARS: 05.05.21

"You talk about the economy overheating, you kind of go: 'Gosh, I kind of like producing as much as we can,'" Charles Evans, president of the Federal Reserve Bank of Chicago, said during a call with reporters. "Why would you like unemployment to be higher when it can be lower? It depends on what the added cost is."

"We're still a long way away from our goals, and in our new framework we want to see actual progress, not just forecast progress," Richard H. Clarida, the central bank's vice chair, said on CNBC on Wednesday afternoon. "As we move through the year, we'll get more data."..."Our baseline view is that we don't overheat," Mr. Clarida said. "If there are unforeseen, persistent upward pressures on prices," then "we would use our tools to bring it down."

"My view is that this acceleration in the rate of price increases is likely to prove temporary," Eric Rosengren, the president of the Federal Reserve Bank of Boston, said in a speech Wednesday. "Toilet paper and Clorox were in short supply at the outset of the pandemic, but manufacturers eventually increased supply, and those items are no longer scarce."

Michelle Bowman, one of the Fed's six Washington-based governors, said that it was unclear how long it would take supply bottlenecks to clear up, creating a source of uncertainty about inflation — but that it seemed most likely that price gains would stay contained. "At this point, the risk that inflation remains persistently above our long-run target of 2 percent still appears small," she said, according to prepared remarks released Wednesday morning. "I am encouraged by the recent pace of the economic recovery, and I remain optimistic that this strength will continue in the coming months."

Several Fed officials, including Mary C. Daly in San Francisco, have made clear that they want to avoid taking too defensive a position. If the Fed signals that it may lift rates sooner and market-based financial conditions tighten in response — often the case with central bank communications — it could make borrowing more expensive and slow the economy. In that event, it might take longer for the labor market to reach full strength. "Why do we have bottlenecks?" Ms. Daly asked on Twitter on Wednesday. "Newly vaccinated people are spending, so we have a 'freedom-induced demand spurt.' Producers have to catch up. So ride through the temporary pops in inflation — the economy's in transition."

Source: The New York Times

No doubt, the timing of any Fed policy actions will remain data dependent, and the all-important and disappointing employment situation report out on Friday suggests that the likelihood of a rate hike in the near-term is low. After all, Chair Powell said the week prior, "Economic activity and hiring have just recently picked up after slowing over the winter. And it will take some time before we see substantial further progress."

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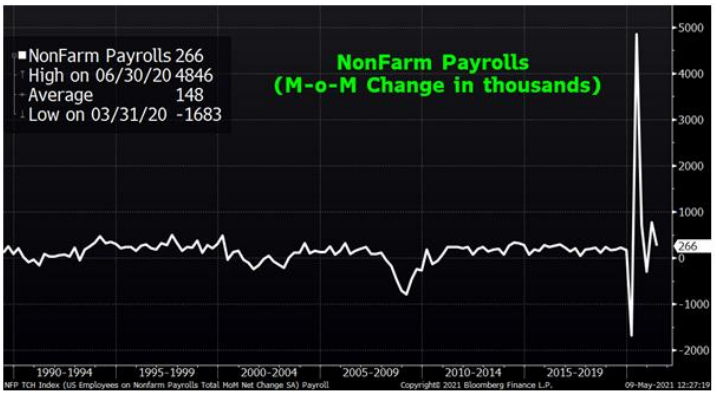
MUCH-WEAKER-THAN-EXPECTED LABOR REPORT

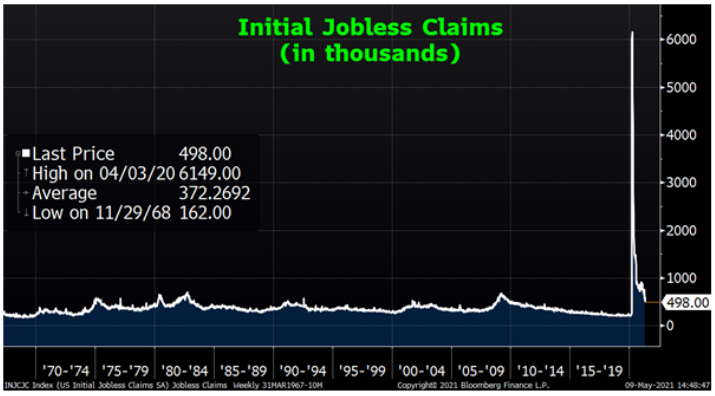


Economists were looking for a huge gain of 1,000,000 payrolls, so the increase of 266,000 in April was very disappointing, even as job openings have surged. The struggling leisure and hospitality sector accounted for all the growth (a 331,000 increase) in jobs during the month, but as those are generally lower paying, the average hourly earnings comparisons weakened, with only a 0.3% increase in April on a year-over-year basis.

Certainly, the jobs numbers are far better today than most would have envisioned not too long ago,…

THE PRUDENT SPECULATOR

LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW VAST IMPROVEMENT



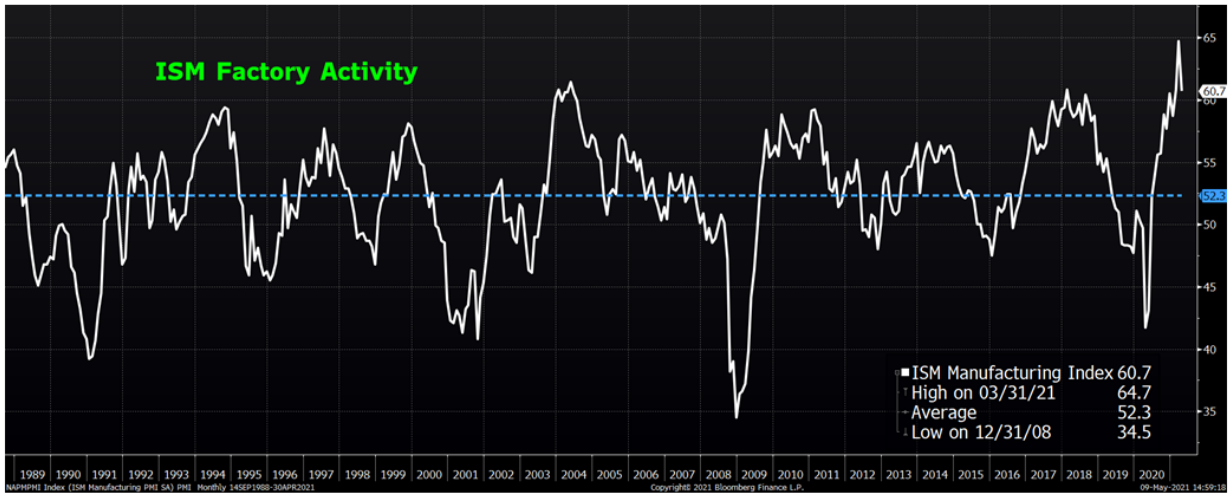
Even with a new round of government stimulus and millions of vaccinations helping the cause, the jobless rate for April ticked up to 6.1% as more folks entered the work force. Of course, a year ago, the unemployment rate hit a record 14.7%, so the labor situation has improved considerably, and first-time filings for unemployment benefits in the latest week came in at 498,000, a new pandemic low.

…while the latest stats, although below estimates, were still very strong on the outlook for the manufacturing sector…

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 5.0% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in at a much-worse-than-expected 60.7 in April, retreating from the highest level ever for the 30-year history of the gauge in the month prior. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 5.0% increase in real gross domestic product (GDP) on an annualized basis."

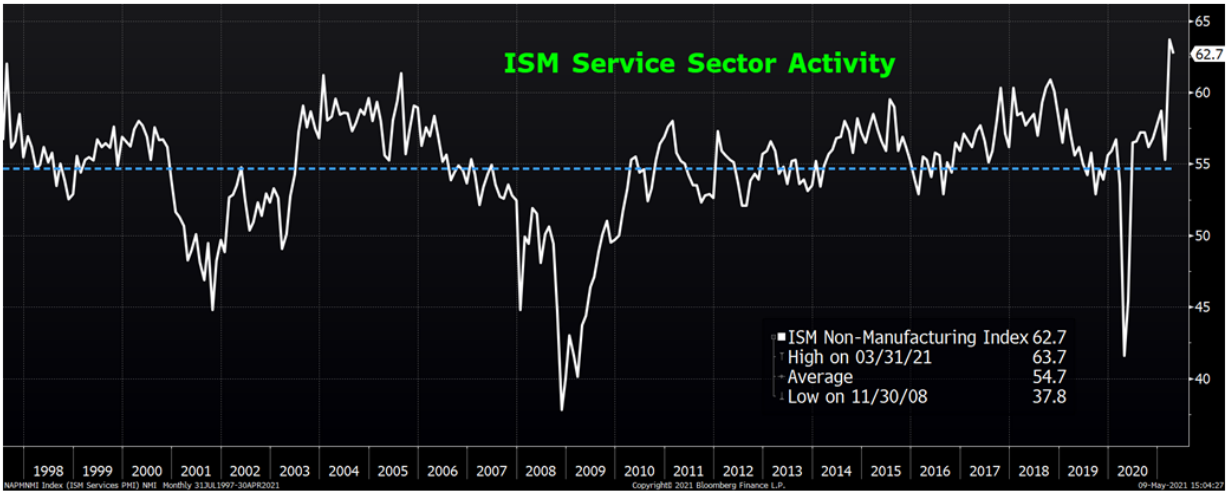


…and the services sector.

THE PRUDENT SPECULATOR

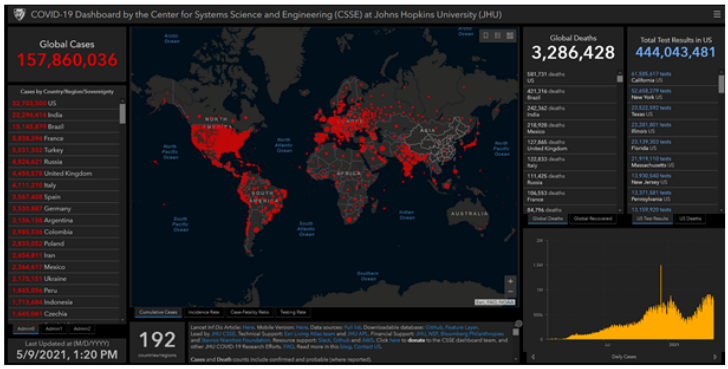
ISM NON-MANUFACTURING DIPS: 4.7% ANNUALIZED GDP GROWTH

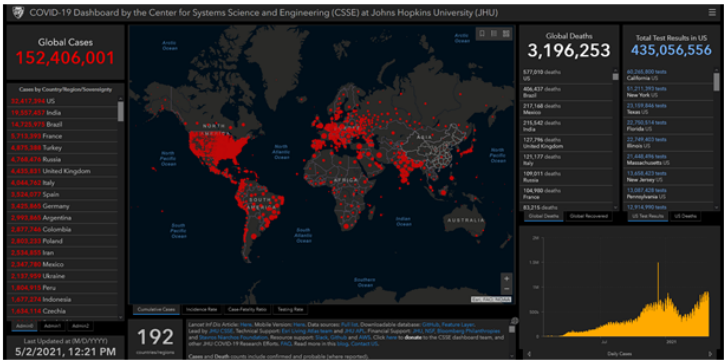
The latest read on the health of the service sector pulled back to a weaker-than-expected 62.7 in April, down from 63.7 in March. The figure is still well above average and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 4.7% increase in real gross domestic product (GDP) on an annualized basis."



Obviously, the prognosis on the U.S. and global economies is still very dependent on the progress with the virus,…

COVID-19 GLOBAL CASE AND MORTALITY RATES





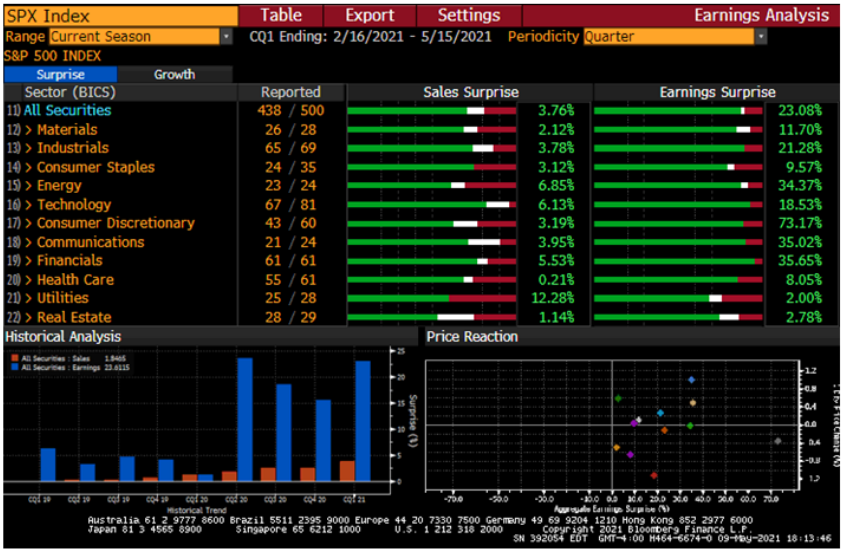
https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

Given that nearly 3.3 million have lost their lives around the world, with 582,000 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 5.5 million. The rise in weekly fatalities of 90,000 was a bit better than the 93,000 of 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. On the plus side, 33.7% of all Americans are now fully vaccinated.

…but the outlook for corporate profits continues to improve, with Standard & Poor's itself now projecting full-year 2021 EPS for the S&P 500 of $185.90, up from $178.09 just two weeks ago.

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021 AND 2022

Q1 earnings reporting season has been fantastic thus far, relative to analyst projections that were still too too pessimistic in their top- and bottom-line estimates. 87.0% of S&P 500 companies have topped EPS expectations and 70.7% have exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$55.39	$207.82
9/30/2022	$53.27	$201.21
6/30/2022	$50.00	$194.38
3/31/2022	$49.16	$187.76
12/31/2021	$48.78	$185.90
9/30/2021	$46.44	$175.30
6/30/2021	$43.38	$166.76
3/31/2021	$47.30	$150.17
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

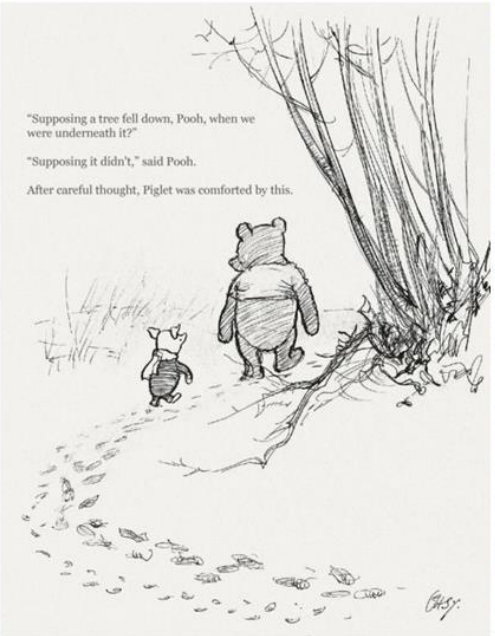
Source: Standard & Poor's. As of 5.6.21

Given the magnificent run stocks have been on since Halloween, we have to be braced for some sort of a pullback,…

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

COVID-19, geopolitics, higher interest rates and increasing inflation are some of the bogeymen now spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards for those who stick with stocks through thick and thin.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	48663%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28117%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	25260%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9833%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9186%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10758%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7813%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5980%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4437%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5511%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4493%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5947%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3923%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4209%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3443%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2514%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1629%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1782%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1239%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1024%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	928%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	855%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	826%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	738%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	383%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	341%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	244%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	215%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	338%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	362%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	288%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	253%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	526%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5820%**

As of 5.7.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…even as we think equities in general remain reasonably priced given the still-very-low interest rate environment,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

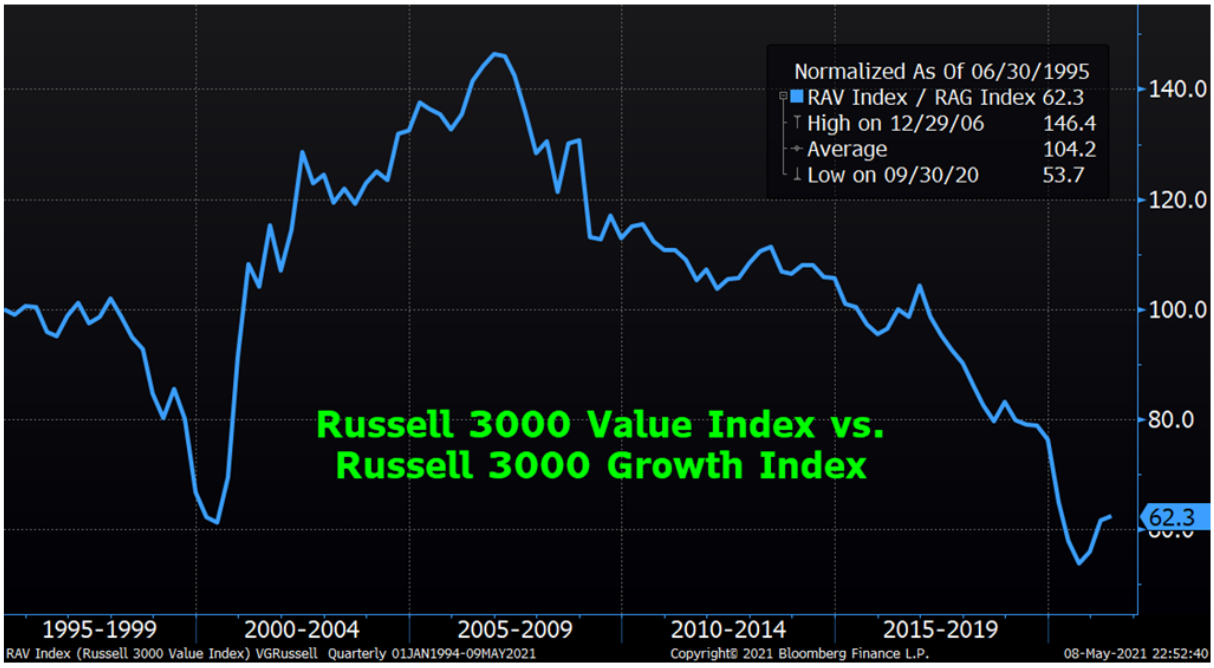
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.29% vs. 1.58% 10-Year) and generous S&P 500 dividend yield of 1.36%.

…while we think the Value renaissance still has a long way to go.

THE PRUDENT SPECULATOR

R3K VALUE "BUY" SIGNAL STILL LIKE 2000

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



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 baker's 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.

General Motors (GM – $58.99) posted much-better-than-expected Q1 profits, propelling shares northward more than 4%. The automaker turned in fourth quarter EPS of $2.25, versus the $1.08 estimate, while the revenue tally was $32.47 billion, compared to a $32.77 billion projection. GM noted that the semiconductor shortage is most likely to have the largest impact in Q2. The company projected pretax income of $10 billion to $11 billion for the full year 2021, or $4.50 to $5.25 a share, with the chip issue accounting for a $1.5 billion to $2.5 billion hit.

CEO Mary Barra commented, "Global purchasing and supply chain, engineering and manufacturing have been especially nimble and opportunistic as we managed through the semiconductor shortage. For example, our engineers are creating effective solutions using chips

that are more readily available or by identifying alternatives that can serve semiconductors where possible. Their work helped us maximize production of our highest demand and capacity-constrained vehicles, reducing downtime and further demonstrating our team's agility… We remain committed to fund $7 billion in EV and AV investment that includes capital and engineering this year and accelerating 12 EV programs as we first announced last November."

When asked about inventory levels, which have been depleted recently, Ms. Barra said, "To be clear, we won't overbuild inventory, to be crystal clear, and we will keep the ingenuity, the tools — I mean, because it's better for everybody. It's better for the car company, it's better for the dealer." We take this to mean that GM is going to move away from the deep discounting and low-end models, which often sit on lots for extended periods of time. Instead, GM will focus on building cars that customers want when they want them. For folks looking for cheap cars, this is probably not good news. However, for GM and its shareholders, this seems to be a good move.

We continue to like GM and believe that the company's move away from sedans and towards trucks and SUVs was important and supplies the huge amounts of cash flow required to launch more than 30 EVs in the very near term. The pivot to EVs has been impressively swift across the entire industry (after a slow start) and we think it'll prove valuable for a multitude of reasons. Ms. Barra was asked if there were any internal combustion engine cars in the works for launch

between now and 2025, and she declined to answer, but noted that the ICE platforms don't need significant funding and GM expects to "sell all EVs from a light duty perspective" by 2035. The valuation for GM isn't as cheap as it once was, around 11 times forward earnings, but it remains a bargain in our view. Our Target Price has been lifted to $78.

Shares of **CVS Health** (CVS – $85.11) gained more than 11% last week, thanks in large part to the announcement of top- and bottom-line results for Q1 that were better than analyst estimates and an increase in the full-year 2021 EPS outlook. The integrated pharmacy healthcare provider reported adjusted EPS of $2.04 vs. a consensus projection of $1.71. Revenue was $69.1 billion, versus the consensus outlook of $68.5 billion. CVS reported operating income growth in the Pharmacy Services segment, which provides a range of pharmacy benefit management (PBM) solutions, while Retail locations administered 23 million COVID tests and 17 million vaccines. The company's Health Care Benefits segment benefitted from growth in government services.

CEO Karen Lynch explained, "There are 3 areas where I want to specifically highlight some of our achievements in the last quarter. They include: using our digital assets to expand engagement with our members; expanding into new services and offerings; and leveraging digital capabilities to enhance the customer experience and improve our cost structure. Starting with engagement. We saw a more than 80% increase in visits to our flagship digital properties year-over-year. Growth was primarily driven by engagement in our expanded set of digital health services, such as COVID testing, vaccinations and omnichannel pharmacy. Next, we are expanding access to care through our digital and virtual channels. We launched a digital-first primary care model that helps consumers navigate the best site of care for their health needs. And lastly, we are also harnessing technology such as AI, machine learning services and natural language processing to simplify our process and optimize our cost structure. We recently announced the launch of our CVS Health venture fund that gives us insight into new digital health innovations. This approach allows us to invest in and partner with high-potential early-stage companies to drive technology-enabled innovation and digital health care."

Ms. Lynch continued, "Rising to meet the challenge of COVID-19 has advanced the transformation of the health care industry. For CVS Health, the chance to serve our nation at such a critical time has further proven the value of our strategy. We have made significant progress in the expansion of our vaccine and diagnostics businesses. We are focused on building broader capabilities in home health, virtual care and health services. Our investments in these areas as well as our digital transformation have allowed us to be there for every meaningful moment of health and will enable us to capture the lifetime value of each of our customers."

Although the competitive landscape is challenging, COVID-19 is still impacting operations, the regulatory environment presents questions and opioid litigation remains (though it seems to be coming to a conclusion), we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. CVS shares slumped in 2020, but have rallied more than 25% this year, which we think is likely to continue as folks safely get back to normal. The company's updated EPS guidance now stands at $7.56 to $7.68 (previously it was between $7.39 and $7.55). CVS maintained its previous cash flow from operations guidance of $12.0 billion to $12.5 billion. We think CVS shares are

underappreciated as they trade for around 11 times NTM adjusted earnings estimates and yield 2.3%. Our Target Price for CVS has been boosted to $121.

Medical equipment and device maker **Zimmer Biomet Holdings** (ZBH – $172.49) reported Q1 results that came in ahead of estimates, but shares retreated after management offered a cooler take on the future. Zimmer earned an adjusted $1.71 per share in the quarter, compared with the analyst consensus of $1.52, while revenue was $1.85 billion, compared with the $1.75 billion consensus. ZBH benefitted from a sharp increase in procedures in the U.S. and Asia-Pacific regions, although the EMEA region saw a drop in procedures as a result of an uptick in COVID cases.

CEO Bryan Hanson said of the company's long-term trajectory, "We remain fully committed and confident in ZB's long-term growth and margin expansion expectations. We've said before, we'll say it again that the spin-off of NewCo actually serves to de-risk and potentially accelerate our path to mid-single-digit growth and a best-in-class 30% operating margin profile by the end of 2023. And we're confident that throughout this process and as we achieve this growth in margin profile, we're also going to have the flexibility to reinvest for growth. And that is a key thing for us. We've got to continue to be disciplined, but ultimately invest for growth in this business. And that's what we will continue to do…I continue to be highly confident in the ZB team and in our business momentum. And I truly believe that we are well positioned for success, and our strategy is working. Our transformation is well underway, and I'm excited about the value that we can drive for our shareholders on a go-forward basis."

Zimmer had $247 million of operating cash flow in Q1 and free cash flow totaled $137 million. The company paid down $200 million of debt ($7.8 billion in total debt as of 3/31). For the full year, ZBH expects a revenue increase of 14% to 17% over 2020, with EPS between $7.60 and $8.00. CFO Suketu Upadhyay said, "While we continue to see pressure due to the global pandemic, vaccine rollout and adoption is approaching meaningful levels. Translating into a reduction of infection surges and hospitalizations in most markets. This increased stability gives us greater confidence that we'll return to normalized market growth in our key markets within the year and also begin to see deferred patients reenter as an added tailwind. As a result, today, we provided financial guidance based on our latest expectations, and that is underpinned by 2 key assumptions: First, current vaccine adoption trends continue to strengthen, driving a decrease in the number of new COVID-19 cases through 2021; and second, hospitals increase capacity to work through some portion of patient backlog this year."

Even though ZBH's bread and butter products in the joint replacement space have been hit hard, with many voluntary procedures delayed by the pandemic, we still like that the company is the king of hip and knee implants, with the largest share of surgeons trained on its instrumentation where switching costs are high. The company is in the midst of spinning off the Dental and Spine businesses, which we think will help ZBH stay focused on its core competencies. Additionally, we believe longer-term, favorable demographics, which include aging Baby Boomers and (unfortunately) high obesity rates, will drive solid demand for large-joint replacement over the coming years. Shares trade for around 21 times forward earnings but EPS is expected to grow from $8.69 this year to $9.48 next year and $10.41 in 2023. Our Target Price for ZBH now stands at $188.

Refocused biopharmaceutical concern **Pfizer** (PFE – $39.58) earned $0.93 per share in Q1, nearly 20% better than the $0.78 consensus analyst estimate, as revenue grew 8% year-over-year despite pricing headwinds. Sales from vaccines tripled versus the 2020 quarter on demand for the COVID-19 jab, but other segments also performed at a high level, producing 14% growth cumulatively, year-over-year. Management also raised its guidance for the year and is now expecting revenue between $70.5 billion to $72.5 billion, up from the previous range between $59.4 billion to $61.4 billion, due to contracts for the COVID-19 vaccine signed through mid-April that are expected to add an additional $26 billion to the top-line. This figure ($26 billion) is $11 billion higher than the company projected a quarter ago. Consequently, management also increased the range of its EPS guidance to $3.55 to $3.65 from $3.10 to 3.20.

Shares initially jumped the morning following the release before reversing course to end the day on news that the Biden administration had voiced support for waiving intellectual property rights for COVID-19 vaccines. In an open letter released on Friday, Pfizer CEO Albert Bourla had the following to say on the matter, "When we created our vaccine there was no manufacturing production of any mRNA vaccine or medicine anywhere in the world. We had to create manufacturing infrastructure from scratch. With 172 years of quality manufacturing tradition, substantial deployment of capital, and more importantly, an army of highly skilled scientists, engineers and manufacturing workers, we developed in record time the most efficient manufacturing machine of a life-saving vaccine that the world has ever seen. Currently, infrastructure is not the bottleneck for us manufacturing faster. The restriction is the scarcity of highly specialized raw materials needed to produce our vaccine. These 280 different materials or components are produced by many suppliers in 19 different countries. Many of them needed our substantial support (technical and financial) to ramp up their production. Right now, virtually every single gram of raw material produced is shipped immediately into our manufacturing facilities and is converted immediately and reliably to vaccines that are shipped immediately around the world (91 countries to date.) The proposed waiver for COVID-19 vaccines, threatens to disrupt the flow of raw materials. It will unleash a scramble for the critical inputs we require in order to make a safe and effective vaccine. Entities with little or no experience in manufacturing vaccines are likely to chase the very raw materials we require to scale our production, putting the safety and security of all at risk."

He continued, "I worry that waiving of patent protection will disincentivize anyone else from taking a big risk. We deployed $2 billion before we knew whether we could successfully develop a vaccine because we understood what was at stake. Just recently, I authorized spending an additional $600 million on COVID-19 research and development that will bring our total spend for R&D in 2021 to more than $10 billion. The recent rhetoric will not discourage us from continuing investing in science. But I am not sure if the same is true for the thousands of small biotech innovators that are totally dependent on accessing capital from investors who invest only on the premise that their intellectual property will be protected."

Notably, while Pfizer has pursued profit from its (and BioNTech's) vaccine, the company has implemented a pricing system whereby middle-income countries were offered doses at roughly half the price paid by wealthier nations and low-income countries were offered doses at cost. Looking forward, while many expect that some form of booster for the SARS-CoV-2 virus will be necessary for some number of years, the outlook for how that will translate to Pfizer's bottom

line beyond the next couple of years is still murky. Nevertheless, we still believe that the market underappreciates New Pfizer's emerging pipeline of products and management's increasing confidence in its organic growth potential. We also note that the dividend will be maintained at the $0.39 rate in place prior to the spin-off of the Upjohn division, and the yield is 3.9%. Shares trade at a mere 11 times the 2021 earnings estimate and we've bumped our Target Price to $51.

German industrial conglomerate **Siemens AG** (SIEGY – $87.77) earned $1.04 per share in fiscal Q2 2021 (vs. $1.10 est.). SIEGY had revenue of $17.7 billion, versus the $17.0 billion estimate. Shares gained 4% on the results, pushing the YTD advance above 22%.

CEO Dr. Roland Busch explained, "From a macro perspective, industrial recovery continued. This was clearly visible in key verticals such as automotive, machine building, electronics, chemicals or pharma. Part of the strong manufacturing rebound is due to catch-up effects and strengthening resilience in increasingly strained supply chains. From a regional perspective, China stands out, now clearly above pre-COVID levels for industrial output. Recovery in Europe and the United States gains traction with vaccination now progressing at a fast pace. Broad-based fiscal stimulus will support over the midterm to modernize infrastructure and lower greenhouse gas emissions. All in all, the economic environment is improving, albeit with large regional differences depending on the pandemic impact."

Dr. Busch added, "Our top priority is on execution strategically and operationally, and we made substantial progress here. Our portfolio, more focused and strengthened. Our competitiveness programs, fully on track. Our offering best suited to create sustainable customer impact and support their digital transformation. All this led to strong operational momentum, driving profitable growth and excellent free cash flow. We expect to continue the second half in fiscal 2021. At the same time, we will continue to manage risks and opportunities in a prudent way. We expect an uptick in discretionary spending. In line with opening of economies. In addition, we plan to selectively invest in further digital applications and vertical offerings guided by demand from the market and our customers. Also, we will improve our sales processes and performance across all sales channels to grasp growth opportunities. Besides the pandemic-related risks, we keep a close eye on stretched supply chains. Our teams have done a great job so far. They are working hard to further mitigate risks from electronic shortages and price increases in certain categories. Currently, there's also strained supply for steel, plastics, and freight, amongst others. Hence, in selected cases, we may face production constraints and prolonged delivery lead times to customers over the next months."

Looking ahead, and the main reason the stock rallied, Dr. Busch concluded, "We raised our outlook for fiscal year 2021 again. We expect our book-to-bill ratio to be above 1. We now expect revenue growth for the Siemens Group of 9% to 11% on a comparable basis. And net income is now seen in the range of EUR 5.67 billion to EUR 6.2 billion. These numbers do not include any effects from the Siemens Healthineers' acquisition of Varian, which closed after the second quarter."

We think Siemens will continue to benefit from long-term infrastructure projects, especially those of the renewable energy variety. Analysts project earnings per share will grow from $2.81 in fiscal 2020 to more than $5.00 by fiscal 2023, which pencils out to a 2023 P/E ratio of 17.

Siemens has had some special distributions lately that have inflated the dividend yield, but we expect the ongoing net yield to be around 1.8%. We believe the near-term headwinds could be stiff, depending on the course of the pandemic, but we like SIEGY's global footprint and long backlog. Our Target Price for SIEGY has been boosted to $98.

Volatile shares of **Kulicke & Soffa** (KLIC – $50.69) tumbled more than 10% in price on Thursday and recouped more than 4% on Friday after the manufacturer of equipment for use in the semiconductor business reported fiscal Q2 2021 results. The company posted earnings of $1.15 per share (vs. $1.20 est.) and had revenue of $340 million (vs. $332 million est.). Despite the one-day whack, KLIC shares have gained 59% this year, on top of a strong 2020. KLIC benefitted from a terrific demand environment, while raw materials and fees for expediting orders dragged on the quarter's results.

CEO Fusen Chen said, "At a high level, we see two transitional drivers and several additional and meaningful secular drivers that are expected to continue positively impacting demand for our products and solutions over the long-term. The two transitional drivers stem from dramatic capital equipment underinvestment in fiscal years 2019 and 2020, and also the incremental end-market demand due to work and play-from-home effecting applications such as PC and gaming. While we expect these drivers to be transitional, lead times for our new core products and also capacity utilization of our installed base remain at very high levels. These data points give us confidence that these transitional drivers are likely to extend into fiscal year '22. The most comparable period of underinvestment in the past was during 2008 and 2009 which then lead to an extended period of strong demand."

Mr. Chen continued, "In addition to these two transitional drivers, I would also like to clearly highlight the more material and secular long-term trends such as the anticipated data explosion supported by global 5G, IoT and artificial intelligence adoption, the electric and autonomous vehicle transition and also the increasing capital intensity needed to support next-generation, higher-density semiconductor assembly requirements. These new applications are expected to create additional layer of demand, structurally supporting above-average semiconductor growth over the coming years."

KLIC expects revenue full year revenue between $1.3 billion and $1.4 billion. For fiscal Q3, KLIC expects revenue between $380 million and $420 million with EPS between $1.215 and $1.485, well above projections. We think the company will continue to benefit from widespread 5G deployment, while the specialized nature of KLIC's equipment offers a lower-than-average threat of new market entrants. While the EPS miss was disappointing, we think little was going to thrill investors given the stock's huge run this year. The balance sheet also has around $550 million of net cash and the stock sports a 1.1% dividend yield. Our Target Price is now $66.

Breaking out of a seven-month consolidation pattern, shares of **Leggett & Platt** (LEG – $57.53) rallied almost 16% on the week as Q1 financial results were announced. The diversified manufacturer earned $0.59 per share (well above the $0.43 analyst estimate) on $1.2 billion of sales in the quarter. Bedding sales grew 9% from a combination of raw material-related price increases as winter storms in February contributed to chemical shortages for foam products. Strong demand and material-related price increases led to a 12% sales increase for the furniture,

flooring & textile products segment. Growth from automotive and hydraulic cylinders offset weakness in aerospace, driving 10% sales growth for the specialized products segment. Management increased its sales and earnings guidance for 2021 and now expects sales in the range of $4.8 billion to $5.0 billion and EPS in a range of $2.55 to $2.75.

COO Mitch Dollof offered additional color, "Demand for home related products and autos remains strong, and we are seeing modest recovery in Hydraulic Cylinders, Work Furniture and Aerospace. Sales in our Bedding Products segment… benefited from raw material-related selling price increases of 9% from steel — inflation in steel, chemicals and nonwoven fabrics and positive currency impact of 1%. Volume grew 2% from strength in ECS, European Spring and U.S. Spring. Prior year divestitures reduced sales by 3%. Overall mattress production in the industry was constrained throughout the quarter due to chemical shortages that restricted foam supply. Our supply of nonwoven fabrics, additional staffing and additional machine capacity allowed us to alleviate the backlog associated with our Comfort Core inner strengths."

When asked about the firm's financial priorities this year, CFO Jeff Tate commented, "We're making tremendous progress, as you noted, in our deleveraging efforts, and you've seen that over the past 1.5 years or so. And your projections around potentially where we could land at year-end, I would say, is very realistic at this stage. In terms of buybacks, we're going to stick with the priorities that we've set in terms of our uses of cash and how that plays out here in the near-term in terms of funding our organic growth, continuing to be very focused on our dividend commitment, also continuing to that deleveraging effort moving forward. And then looking at M&A opportunities, and we've been very clear that we will continue to look for those bolt-on, small type of M&A targets that would be a good fit with our portfolio moving forward. And if there's additional cash after that, it would be used for buybacks."

LEG appears to have shifted from rebound to growth mode with a strong start to 2021 for most of its businesses. We appreciate that the company is prepared to flex its competitive position in passing on inflationary costs to customers amid a tight environment for many industrial producers, while persistent strength in the housing market should continue to provide a tailwind. We also like that management has a history of disciplined cash use, that the company is a leader in most of its markets, with few large competitors. With another hike in the quarterly dividend last week, this time to $0.42 per share from $0.40, the company has increased its payout for 50 consecutive years and the current yield is 2.9%. Our Target Price has been raised to $63.

Shares of **Cardinal Health** (CAH – $58.16) ebbed nearly 10% at one-point last Thursday following the company's release of its fiscal Q3 financial results but rallied that afternoon and Friday to recover some of the lost ground. The drug distribution giant earned $1.53 in the quarter (just shy of the $1.54 analyst estimate), a 6% decrease from the 2020 figure. Operating profit in the Pharmaceutical segment decreased 4% versus the prior year while revenue of $35.1 billion was unchanged as generic volumes declined. Operating profit in the Medical segment decreased 2%, even as revenue of $4.2 billion grew by 3%, as cost savings, including global manufacturing efficiencies, were offset by a decline in products and distribution. Management has adjusted its earnings guidance to a range of $5.90 to $6.05 for fiscal '21 compared to the $5.25 to $5.65 range it offered last August.

CEO Michael Kaufmann commented, "We remain focused on serving our customers and their patients and continue to advance our strategic priorities. With our resilient business model, we are navigating the effects of the pandemic on our businesses. In the quarter, we continued to see strong demand for lab and PPE products and volume recovery in our nuclear business. Medical elective procedure utilization experienced some volatility, and we saw ongoing COVID-19 related softness in generics volumes, which we now expect to extend into the next fiscal year. With these updated assumptions, we have revised our Pharma segment outlook. Despite the impacts of COVID-19, our business fundamentals are strong, demonstrated by the underlying growth we are seeing in both segments, and we continue to advance our strategic priorities including optimizing our supply chain and portfolio as you saw in our recently announced agreement to sell the Cordis business. As we navigate the pandemic, our customer focus remains central to our activities. We deeply appreciate that it is our responsibility to serve health care providers, their patients and those on the front lines. Although the operating environment remains dynamic, it has reinforced our critical role in the supply chain, and it highlights opportunities for us to enhance our operation and evolve for future growth."

Cardinal says it continues to experience headwinds from COVID-19 (particularly within generics distribution), and there remains the ongoing threat of opioid litigation. Still, we remain drawn to CAH with the belief that demographic trends in the U.S. will put the wind at the company's back as the population continues to age and requires greater health care usage. Despite razor-thin margins in its pharmaceutical segment, CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 3.4%), buy back stock and invest in the business via research & development and mergers & acquisitions. CAH shares trade for 9.7 times NTM earnings expectations, below that of peers and at an 18% discount to the 10-year average. Our Target Price is now $81.

Shares of property and casualty insurer **Allstate** (ALL – $132.26) rose more than 4% last week on the heels of a terrific quarterly earnings report. Adjusted EPS for Q1 came in at $6.11, versus the consensus forecast of $3.99. The Q1 beat marks the fourth consecutive quarter that Allstate's adjusted EPS has topped expectations by more than 50%, which one would think should be rewarded even more favorably by investors.

CEO Tom Wilson commented, "Allstate increased our customer base and generated excellent returns this quarter, reflecting strong operating results, the acquisition of National General and divestitures of the life and annuity businesses. Personal property-liability premiums earned and policies in force increased by 11.4% and 12.1% from the prior year, respectively. Revenues from the Protection Services segment increased by 21.6% from 2020, reflecting continued expansion of Allstate Protection Plans. The announced divestitures of the life and annuity businesses generated a $4.0 billion loss, which resulted in a net loss for the quarter of $1.4 billion. Adjusted net income, however, was $1.9 billion, or $6.11 per common share, for the quarter, representing a 23.2% return on equity over the last twelve months."

Mr. Wilson continued, "Our long-term approach to investing, reinsurance and building a digital insurer is creating shareholder value and positively impacted results this quarter. Total investment income increased by 188% ($708 million) as performance-based income rebounded from last year's first quarter loss. Gross catastrophe losses of $1.67 billion for the quarter were

nearly eight times greater than 2020 but were offset by $1.08 billion of reinsurance and subrogation recoveries. The Transformative Growth plan to increase property-liability market share is also progressing, with higher new business sales in the Allstate brand, driven by the direct channel. Last year's cost reductions also enabled us to improve customer value while achieving an 83.3 combined ratio for the quarter."

We continue think Allstate is well-positioned with the potential to deliver attractive long-term gains due to its vast and increasing distribution network, scale and resulting cost advantages, pricing sophistication and product design. The dividend yield is 2.5% and shares still change hands at less than 11 times NTM adjusted EPS forecasts. Our Target Price for ALL now stands at $159.

Although we have discussed lithium producer **Albemarle** (ALB – $162.72) multiple times over the past six months as the future growth of the global electric vehicle space has remained front-page news, we couldn't pass up the opportunity to provide a brief update on the specialty-chemical maker's latest quarterly results. While we saw the quarter as quite solid, shares ended the week down more than 3%, even with a nice bounce on Friday, as investors seemed bothered by weakness in the catalysts business and the firm's unwillingness to increase full-year guidance despite delivering revenue and adjusted EPS well above consensus expectations for Q1. ALB's revenue of $829.3 million, outpaced expectations by 9.4%, and adjusted EPS of $1.11 was more than 37% greater than forecasts looking for $0.80.

CEO Kent Masters said, "We were pleased with our performance this quarter, achieving a 17% year-over-year increase in adjusted EBITDA, driven by strong sales from our Lithium and Bromine businesses. We successfully and safely managed through the impact of the U.S. Gulf Coast winter storm on our Bromine and Catalysts businesses. As we look to expand our earnings potential, we continue to focus on execution of our growth strategy and are in the final stages of two lithium projects which will double our conversion capacity to approximately 175,000 metric tons. Additionally, we expect to start approving Wave 3 expansion projects during the second quarter."

Even with the run over the last twelve months, we continue to think that over the long-term ALB will benefit from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. In addition, lithium is used in backup and storage batteries for the power grid, so we believe there will be great demand growth in this arena. Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, we think ALB will get back to generating steady cash flows from its refining catalyst business. Our Target Price for ALB now resides at $196.

Shares of **Tapestry** (TPR – $49.12) rode a roller coaster last week, yet ended at a new 52-week closing high. Although the initial reaction to the luxury lifestyle company's quarterly earnings release was negative, shares bounced back nicely on Friday to end the week in the green. Revenue for the period came in at $1.27 billion, versus expectations of $1.21 billion. Adjusted EPS of $0.51 was more than 60% greater than what analysts were expecting. The continued

recovery was largely driven by strength in e-commerce (again achieving triple-digit growth and accounting for 30% of sales…up from mid-teens pre-pandemic). Additionally, TPR saw strength in Mainland China, which was its highest margin business. The company also continued to achieve average unit retail improvements, helped by lower and fewer promotions. Management said it continues to leverage data for improved efficiency in marketing spanning various social media platforms. The company added approximately 700,000 customers in North America via social media channels and has been very encouraged by the continued growth in Millennial and Gen Z consumers.

CEO Joanne Crevoiserat explained, "Our third quarter results significantly outpaced expectations, underscoring the power of the Acceleration Program and enthusiasm for our brands. Through a sharpened focus on the consumer, we fueled new customer acquisition at Coach, Kate Spade, and Stuart Weitzman and delivered robust sales growth led by Digital and China. Importantly, for the third consecutive quarter, we achieved operating income gains – compared to both FY20 and FY19 – supported by a continued reduction in promotional activity, higher AUR, and disciplined expense management. This performance is a testament to our talented teams around the world, whose creativity, agility, and resilience have enabled us to successfully navigate a challenging backdrop and deliver for our customers, while positioning Tapestry to emerge from the pandemic stronger."

Ms. Crevoiserat continued, "Building on this momentum, we are increasingly optimistic about our ability to generate sustainable top and bottom-line growth. Looking forward, while the environment remains volatile, we see encouraging signs of recovery as vaccination efforts progress, resulting in increased consumer confidence, strong demand for our categories, and improving in-store traffic trends. In this context, we remain focused on driving brand relevance and customer engagement through product innovation and compelling marketing, supported by data-driven insights and a digital-first mindset. We will also continue to lean into our competitive advantages, including our globally diversified, direct-to-consumer model, and distort investments to high-growth opportunities. We are confident that our clear, consumer-centric strategy, powerful brands, and differentiated, scalable platform uniquely position us to capture market share at higher levels of profitability."

While fashion and accessory markets remain intensely competitive, we continue to think the firm's brands (Coach in particular) boast significant appeal for luxury consumers. Even as shares have rallied more than 200% since the end of September, the stock still trades for under 16 times NTM earnings expectations, and current respective EPS forecasts for fiscal '22 and '23 stand at $3.12 and $3.46. And, while the dividend remains on pause, we anticipate solid free-cash-flow generation (with $876 million generated fiscal year-to-date) to allow the firm to resume capital returns in somewhat short order. Our Target Price for TPR has been raised to $57.

Shares of **Regency Centers** (REG – $65.36) gained 3% on Friday after Q3 financial results beat analyst estimates. The retail-focused REIT produced $0.86 (vs. $0.76 est.) of funds from operations per share on revenue of $274.7 million. At the end of March, 93% of Q3 pro-rata base rents were collected, with 92.5% of properties leased. The company had rent deferral agreements with balances still outstanding totaling $28.3 million, of which 56% is on a cash basis.

Management raised its guidance and now expects 2021 funds from operations per share between $3.33 and $3.43, up from the range of $2.96 to $3.14 previously projected.

CEO Lisa Palmer said, "Thinking a bit longer term, we believe there are clear tailwinds for our company and our sector as the pandemic has shined a spotlight on our business in a positive way. As we all have experienced the world with e-commerce retail sales spiking meaningfully, our tenants will clearly see and appreciate the value of the last-mile distribution capabilities that their stores in our centers offer. And after spending months at home facing restrictions on interaction, consumers have a new appreciation for the environment and convenience of our open-air neighborhood and community centers. But all of that said, our heads aren't here in the Jacksonville sand. We acknowledge and appreciate that real challenges in brick-and-mortar retail still exist, and there will continue to be shrinking of retail GLA in the U.S. But well-located well operated centers like we own, will still be a critical component of the retail ecosystem, meeting the demands of retailers, service providers and consumers. This renewed appreciation from both sides fortifies the long-term need for physical locations close to consumer zones. And then also the micro migration that's occurring with more people moving into the suburbs, this should provide a long-term benefit to our suburban shopping center portfolio has showed a more permanent shift toward part time, remote work, increasing daytime population foot traffic, close to the consumer's home. Finally, as the macroeconomic and retail environment has shifted toward a definitive trajectory of improvement, as a company, we have pivoted from defense to offense. We are on our front foot. We are focusing on growth, not just organically, but putting capital to work externally. We are well positioned to take advantage of opportunities. We continue to have the best balance sheets in the sector with low leverage full revolver capacity and access to low-cost capital."

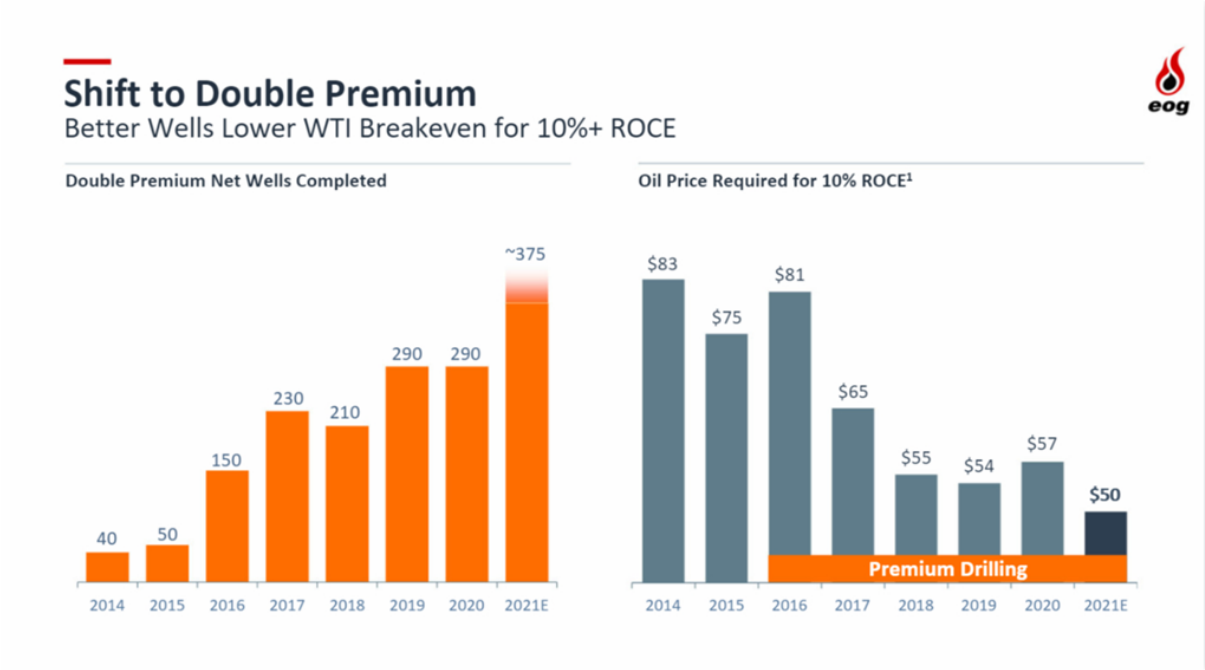
We are relieved that rent collection trends are improving, while longer term, we continue to like that Regency's national portfolio of shopping centers is primarily anchored by productive grocers located in affluent and attractive more-populated metro areas. Despite having grocery store tenants and other service tenants that drive foot traffic to its centers (fitness centers, restaurants, etc.), online shopping continues to be a threat to REG and its tenants, but all in all, we expect an appreciation for getting out-and-about after a year of restricted movement will boost (at least for a while) outdoor shopping. Shares have rallied a whopping 84% since Halloween and the dividend yield is now 3.6%. Our Target Price for REG has been hiked to $73.

Shares of **EOG Resources** (EOG – $83.10) leapt nearly 8% in Friday's trading in a reaction to the energy giant's release of Q1 financial results. EOG earned $1.62 per share in the quarter (a Q1 record), better than the $1.50 analysts expected and more than double the Q4 figure. Management detailed its focus on improving returns on capital deployed through continual productivity improvement and drilling what it deems to be "premium locations." With that framework, the company anticipates these actions will allow a 10% return on capital at prices as low as $50 per barrel of oil. Company President Ezra Yacob described, "In 2016, during the last downturn, we established our premium investment strategy, which requires a 30% direct after-tax rate of return at $40 oil and $2.50 natural gas. The premium investment strategy drove a step change in our capital efficiency and resulting financial performance. It is the reason we entered 2020 in a position of operational and financial strength, which enabled us to generate positive adjusted net income and free cash flow in a year of unprecedented oil volatility and prices that

averaged just $39. This year, we increased the return hurdle once again, doubling it to 60% at $40 oil and $2.50 natural gas."

CEO Bill Thomas commented on the quarter, "EOG is delivering on our free cash flow priorities and our strategy to maximize long-term shareholder value. Yesterday, we declared a $1 per share special dividend to demonstrate our commitment to returning cash to shareholders. Combined with the regular dividend, we expect to return $1.5 billion to our shareholders through dividends in 2021. Double-premium well productivity and cost reductions are substantially improving our returns and increasing our ability to generate significant free cash flow. In order to maximize long-term shareholder value, we will remain flexible as we carry out our free cash flow priorities in the future. By doubling our reinvestment standard, the future potential of our earnings and cash flow performance are the best they've ever been. This quarter, we generated a quarterly record $1.1 billion of free cash flow and earned $1.62 per share of adjusted net income, the second-highest quarterly earnings in company history. In addition, our balance sheet is in superior shape with a peer-leading low net debt-to-cap ratio."

Consistent with his remarks last quarter, Mr. Thomas reiterated EOG's posture towards expanding production, "We're not going to grow until demand has recovered to pre-COVID levels, which is — it's on the way to do that. I think everybody can see that. And we want to make sure that, obviously, world inventories, U.S. inventories are below the 5-year average. And then we're looking for spare capacity to be certainly a lot lower than it is right now. And that just means not a lot of oil shut-in to match supply and demand. And every year, the market factors that year — going into that year will determine our plans. And so we want to be flexible. And we want to be able to and we will modify our growth plans to fit those market conditions. If we need to grow at a lower rate or no growth at all, like we're doing this year, whatever that right growth plan is, whatever fits the market conditions, that's what we want to do. Above all everything else, we are committed to staying very disciplined and not forcing oil into a market that's not ready."



We have repeatedly warned in our commentary that the EOG ride could be quite bumpy, but we have been well rewarded thus far for our ownership. We continue to like that EOG has historically been one of a handful of shareholder-friendly oil and gas producers and think management's focus on capital returns is to be commended. On that note, the board has declared a special dividend of $1.00 per share payable July 30 to shareholders of record on July 15. Shares trade for 15 times the consensus 2021 EPS estimate, while the regular quarterly dividend provides a 2.0% yield. We have boosted our Target Price to $97.