Market Commentary Monday, May 17, 2021

May 17, 2021

EXECUTIVE SUMMARY

Week in Review – Volatile Five Days…Value Beats Growth
Sentiment – Fewest Number of AAII Bulls Since October 2020
CPI – Fed Still of the Mind that Rising Pries are Transitory
Econ News – Mixed Data
Health News – Vaccines Work
Inflation & Equities – Historical Evidence Suggests Stocks Perform Fine
Fixed Income – Sizable Losses for Long-Term Government Bonds
Wizard of Wharton – Jeremy Siegel Likes Dividend Paying Stocks
Undervalued Income Producers – 30 TPS Bargains Yielding Better than 2.6%
Patience – The Longer the Hold…
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on APD, TSN, SFL, TAK, NTTYY, ALIZY, NLOK & DIS

Market Review

While stocks, especially those of the Value variety, ended the trading week with relatively modest losses,…

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THREE-DAY SWOON & TWO-DAY REBOUND WITH VALUE OUTPERFORMING

Volatility spiked in the week just ended, with the S&P 500 skidding 3.99% from Monday through Wednesday, before recovering 2.75% total on Thursday and Friday. Happily, Value won the returns race again.

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
-0.46	-3.09	0.00	1.99	4.98	8.98	10.45	12.61	14.77	Bloomberg Barclays Global-Aggregate Bond
-0.37	-2.70	-1.61	-2.09	-0.24	3.53	9.96	16.46	16.35	Bloomberg Barclays US Aggregate Bond
-1.08	13.09	31.15	36.00	48.58	89.33	40.89	47.86	120.39	Dow Jones Industrial Average
-0.99	13.91	33.63	40.20	53.73	92.24	36.85	39.01	82.88	New York Stock Exchange Composite
-2.16	4.25	21.01	26.30	46.92	94.17	68.11	80.55	169.76	Russell 3000 Growth
-0.75	**18.57**	**40.44**	**48.80**	**58.96**	96.30	**37.24**	**41.18**	**84.33**	**Russell 3000 Value**
-1.44	11.15	30.28	36.95	53.14	96.54	53.98	61.99	126.52	Russell 3000
-0.88	18.41	41.13	51.88	68.10	113.40	50.38	57.50	112.14	S&P 500 Equal Weighted
-1.35	11.73	28.73	34.18	48.72	90.14	52.71	61.75	124.70	S&P 500
-2.09	6.54	21.65	26.83	45.48	90.37	61.77	74.58	155.51	S&P 500 Growth
-0.57	**17.62**	**37.41**	**43.17**	**50.85**	86.85	**39.95**	**45.18**	**89.05**	**S&P 500 Value**
-2.70	1.67	19.26	25.21	42.96	93.59	46.14	48.59	118.82	S&P 500 Pure Growth
0.03	**32.30**	**63.74**	**81.99**	**97.25**	144.47	**34.64**	**32.47**	**84.28**	**S&P 500 Pure Value**

As of 05.14.21. Source Kovitz using data from Bloomberg

…we were again reminded that equity prices can and do move in both directions, even as the 3.99% drop in the S&P 500 from Friday's close to Wednesday's close needed to extend further to make our table of 36 setbacks of 5% or more (three per year on average) just since the Great Financial Crisis market low back in March 2009.

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5% UPS AND DOWNS SINCE FINANCIAL CRISIS

S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Other Direction Since 03.09.09

				3/9/2009	3/26/2009	23.11%	BULL
3/26/2009	3/30/2009	-5.44%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	6/3/2019	7/26/2019	10.25%	BULL
7/26/2019	8/14/2019	-6.12%	BEAR	8/14/2019	2/19/2020	16.11%	BULL
2/19/2020	3/12/2020	-26.74%	BEAR	3/12/2020	3/13/2020	9.29%	BULL
3/13/2020	3/23/2020	-17.47%	BEAR	3/23/2020	3/26/2020	17.55%	BULL
3/26/2020	4/1/2020	-6.07%	BEAR	4/1/2020	6/8/2020	30.84%	BULL
6/8/2020	6/11/2020	-7.12%	BEAR	6/11/2020	9/2/2020	19.28%	BULL
9/2/2020	9/23/2020	-9.60%	BEAR	9/23/2020	10/12/2020	9.18%	BULL
10/12/2020	10/30/2020	-7.48%	BEAR	10/30/2020	5/7/2021	29.61%	BULL
Average Drop		**-9.10%**		**Average Gain**		**15.37%**	

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is certainly fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 36 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4173.85.

Of course, each time stocks head south sharply, the media does its part to accentuate the negative, which does little to help investor psyches,…

STOCKS SELL OFF. FOLKS GET NERVOUS. STOCKS RALLY.

Like clockwork, the three-day equity market skid drove Main Street investor optimism to the lowest level since October 2020, with many of those folks missing the terrific rebound over the ensuing two days.

THE WALL STREET JOURNAL.

DOW JONES | Marketwatch ★★★★★ THURSDAY, MAY 13, 2021 - VOL. CCLXXVII NO. 111 WSJ.com ★★★★ $4.00

DJIA 33587.66 ▼ 681.50 2.0% NASDAQ 13031.68 ▼ 2.2% STOXX 600 437.91 ▲ 0.3% 10-YR TREAS. ▼ 20/32, yield 1.693% OIL $66.08 ▲ $0.80 GOLD $1,822.60 ▼ $13.30 EURO $1.2073 YEN 109.70

What's News

Business & Finance

Consumer prices surged in April by the most in any 12-month period since 2008, shaking investors although the data partly reflect a recovery that is picking up steam as the pandemic eases. A1, A2

◆ U.S. stocks extended their losses, with the S&P 500, Dow and Nasdaq falling 2.1%, 2% and 2.7%, respectively. U.S. government bond yields jumped. A1, B11

◆ U.S. tariffs have led to a sharp decline in Chinese imports and significant changes in the types of goods Americans buy from China. A1

◆ China is considering whether to replace Vice Premier Liu as its top economic envoy to Washington. A7

◆ Amazon notched a victory as the European Union's second-highest court sided with the company over a $300 million tax bill. B1

◆ SoftBank smashed profit records in Japan, riding a series of blockbuster IPOs to full-year net income equivalent to nearly $46 billion. B1

◆ Tesla CEO Musk said that the company has suspended taking bitcoin as payment for its vehicles. B1

◆ A Facebook-backed digital currency project is being revamped in a bid to address U.S. officials' concerns that it could be used for illicit purposes. B10

◆ The Pentagon agreed to remove Xiaomi from a blacklist banning U.S. investment in the Chinese tech giant. B4

◆ Boeing is nearing a fix for engine covers like the one that broke apart on a United Airlines 777 jet over Colorado earlier this year. B3

World-Wide

Inflation Surge Rattles Markets

April's increase in consumer prices was driven partly by sharp rises in prices for used cars, gasoline and airline fares.

Consumer-price rise of 4.2% for year is biggest since 2008, fueling worries of a rate hike

By Gwynn Guilford

Consumer prices surged in April by the most in any 12-month period since 2008, shaking investors although the data partly reflect a recovery that is picking up steam as the Covid-19 pandemic eases.

The Labor Department reported its consumer-price index jumped 4.2% in April from a year earlier, up from 2.6% for the year ended in March. On a month-to-month basis, which strips out the effect of price declines in April 2020, the early days of the pandemic, prices rose a seasonally adjusted 0.8% last month.

The index measures what consumers pay for goods and services such as clothes, groceries, restaurant meals, recreational activities and vehicles.

Higher prices for used autos surged 10% in April compared with the prior month—the largest monthly increase on record. That accounted for more than one-third of the increase, the Labor Department said.

The data sent the Dow Jones Industrial Average and S&P 500 to their steepest three-day declines in nearly seven months on Wednesday, on concerns that the Federal Reserve could move earlier than expected to tighten interest rates. Bond yields jumped, with the yield on the benchmark 10-year posting its largest one-day gain since March.

Policy makers are watching April's reading to gauge the extent of what many expect to be a months-long rise in prices, after a year of anemic overall in-

Please turn to page A2

Monthly CPI for select categories, change from previous year

USED CARS/TRUCKS +21% HOUSEHOLD ENERGY +6.4% GASOLINE +49.6% FURNITURE +3.5% AIR FARES +9.6%

Consumer price index, change from previous year

APRIL 2021 +4.2%

Note: Seasonally adjusted
Source: Labor Department via the Federal Reserve Bank of St. Louis

Stocks Log Worst Streak in Months

By Karen Langley And Joe Wallace

U.S. stocks extended their losses on Wednesday, with the Dow Jones Industrial Average and S&P 500 posting their steepest three-day declines in nearly seven months, after a sharp increase in consumer prices heightened concerns about inflation.

The jump in prices was steeper than expected and exacerbated fears that inflation could prompt the Federal Reserve to accelerate its timeline for scaling back its easy-money policies. Near-zero rates have buoyed demand for stocks, which have hit dozens of records since the coronavirus pandemic sent them falling early last year.

"Not only is just inflation and unexpected inflation a bad story for any type of real returns in your portfolio, it's also increasing the uncertainty around what the Fed's next moves are going to be over the next couple of months," said Matt Forester, chief investment officer of Lockwood Advisors at BNY Mellon Pershing.

The S&P 500 fell 89.06 points, or 2.1%, to 4063.04. The Dow Jones Industrial Average retreated 681.50 points, or 2%, to 33587.66. The broad U.S. stock index is down 4% this week, while the blue chips are down 3.4%, the largest three-day drop for both indexes since late October.

The tech-heavy Nasdaq Composite slumped 357.75 points, or 2.7%, to 13031.68. The Nasdaq is down 5.2% this week—its worst three trading days since early March.

Please turn to page A4

◆ Treasury yields jump on inflation signal B11

◆ Three price trends to watch closely A2

AAII Sentiment Survey: Lowest Level of Optimism Since October 2020

by AAII Staff | May 13, 2021

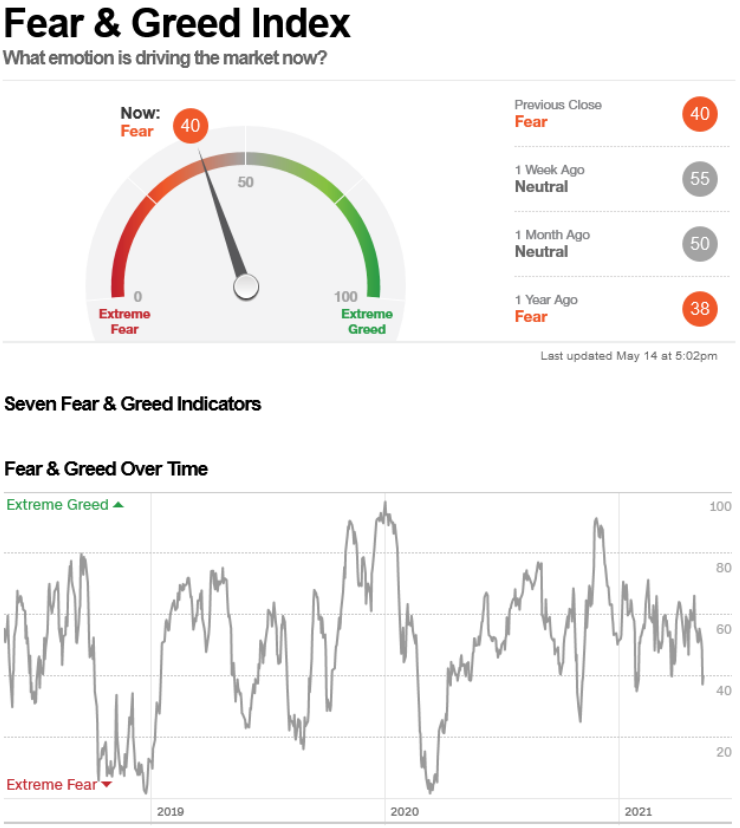
Bullish sentiment among individual investors about the short-term direction of the stock market fell to its lowest level since October 2020. The latest AAII Sentiment Survey also shows an increase in both bearish and neutral sentiment.

Sentiment Votes

Week Ending	Bullish	Neutral	Bearish
5/12/2021	36.5%	36.5%	27.0%
5/5/2021	44.3%	32.5%	23.1%
4/28/2021	42.6%	31.8%	25.7%
4/21/2021	52.7%	26.8%	20.5%
Historical View			
Historical Averages	38.0%	31.5%	30.5%

…though the contrarian in us (the gains since Halloween have been off the charts) certainly doesn't mind when the masses are pessimistic.

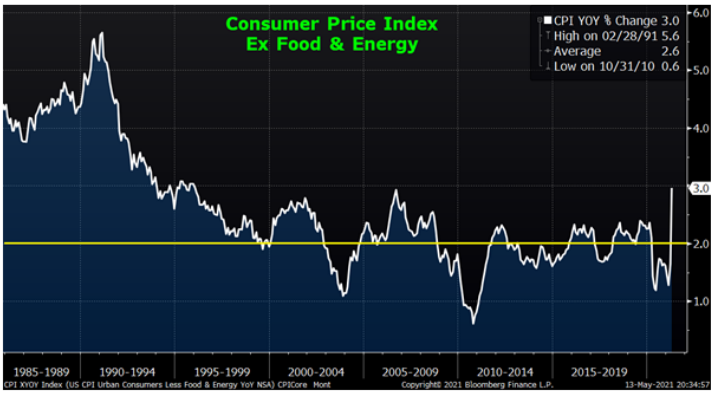
FEAR & GREED INDEX…LITTLE OPTIMISM DESPITE S&P 500 NEAR RECORD

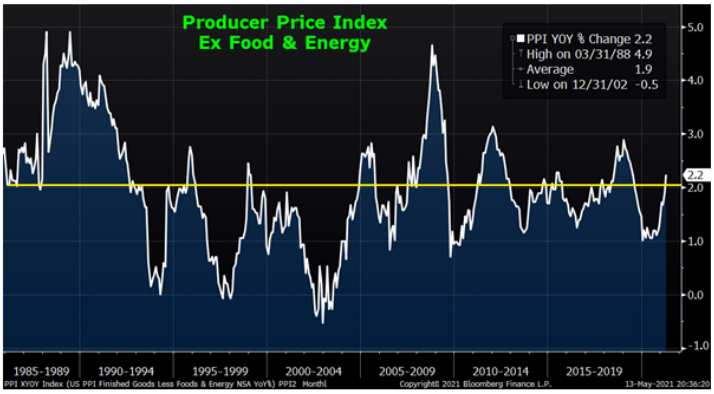


No doubt, there is plenty of frothiness in richly valued (or impossible to value) areas of the equity market, but the *CNNMoney* Fear & Greed Index is now in the pessimistic region, with overall market enthusiasm per this gauge of seven indicators tempered by Extreme Fear readings for Stock Price Breadth, Safe Haven Demand and Put and Call Options.

The turmoil in the Middle East likely might have been blamed for the three-day swoon, though the destruction in Israel and Gaza is still ongoing, but the primary catalyst for the downturn was worries about inflation after the Consumer Price Index in April soared to a 26-year high when it was announced on Wednesday morning.

INFLATION HEATS UP – WILL IT BE TRANSITORY?





Inflation in the U.S. jumped in April to a 26-year high, with the core (excludes volatile food and energy) Consumer Price Index rising by 3.0% on a year-over-year basis and 0.9% when compared to the March reading. The increase was led by hefty price hikes for used cars and trucks, tires, computers, televisions and airfares. Prices at the wholesale level also rose sharply in April, with the core Producer Price Index climbing by 2.2% on a year-over-year basis.

However, stocks rallied on Thursday, even when the Producer Price Index also came in hotter than expected, as we suspect investors were soothed somewhat by comments from Richard H. Clarida. The Federal Reserve Vice Chair said, “This is one data point…Under my baseline outlook, these one-time increases in prices are likely to have only transitory effects on underlying inflation…We have not made substantial further progress toward our labor market objective.”

On that last point, though the jobs picture certainly has improved, there are still far too many out of work,…

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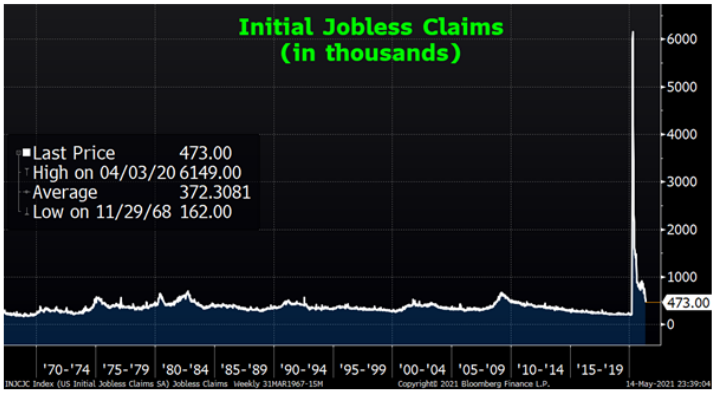
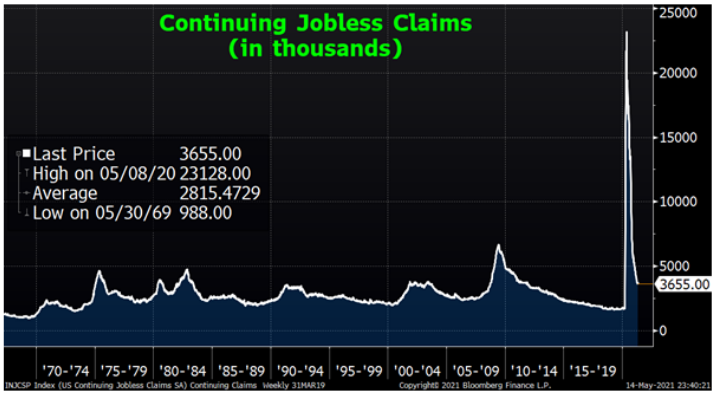
JOBLESS FILINGS CONTINUE TO COME DOWN





The jobs market continued to improve in the latest week, with new filings for unemployment benefits falling to a seasonally adjusted and much-better-than-expected pandemic low of 473,000 for the period ended May 8, down 34,000 from the week prior. Continuing claims filed through state programs inched lower to 3.65 million, also a pandemic low, though there have been 81 million jobless applications filed over the last 60 weeks.

…and the outlook on Main Street is not bursting with enthusiasm,…

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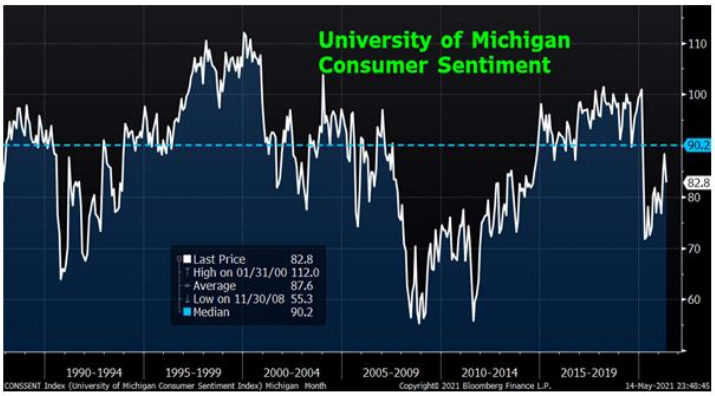
MIXED PICTURE ON MAIN STREET SENTIMENT



The NFIB Small Business Index for April came in at 99.8, up 1.6 points from March to a pandemic high, with the figure also above the 30-year average. Meanwhile, the preliminary Univ. of Michigan gauge of consumer sentiment this month fell unexpectedly to a much-weaker-than-estimated 82.8, down from a final reading of 88.3 in April. Given that the median for this gauge has been 90.2, consumers are a long way from feeling optimistic.

…even as consumers have had no problem opening their pocketbooks of late.

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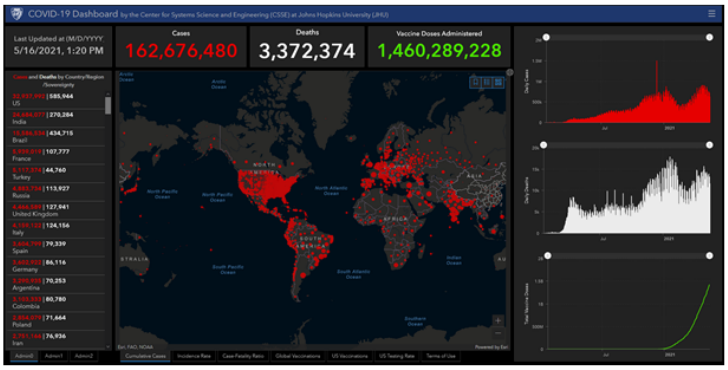
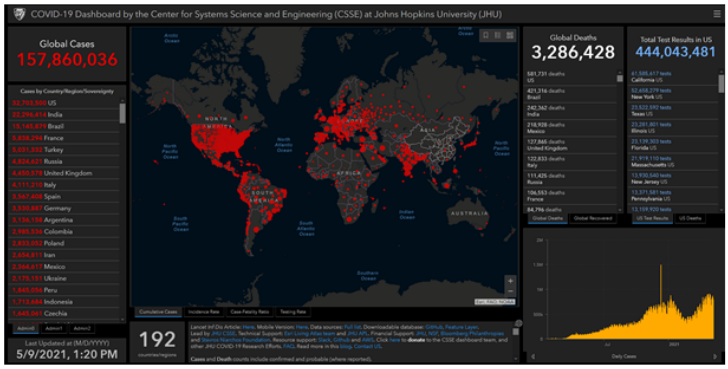
CONSUMERS STILL SHOPPING IN APRIL

Even though the $1,400 government stimulus checks that hit bank accounts in March led to a massive gain in retail sales that month, shoppers continued to hit the stores in April, spending at the same robust pace, though the 0.0% monthly increase was below estimates.

As Fed Governor Lael Brainard said last week, "The outlook is bright, but uncertainty remains…while more balanced than earlier in the year, risks remain from vaccine hesitancy, deadlier variants, and a resurgence of cases in some foreign countries."

COVID-19 GLOBAL CASE AND MORTALITY RATES





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

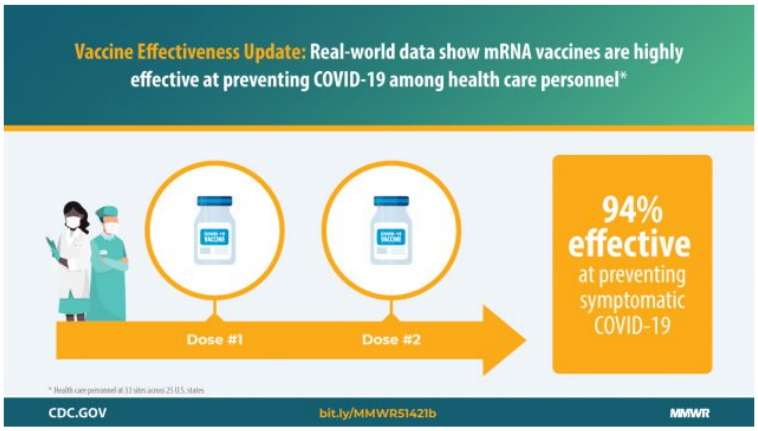
Given that nearly 3.4 million have lost their lives around the world, with 586,000 of those in the U.S., there isn't much positive to say health-wise about the COVID-19 Pandemic, especially as the increase in the latest week's global new diagnoses jumped by 4.8 million. The rise in weekly fatalities of 86,000 was a bit better than the 93,000 of two weeks prior, though India is still experiencing a devastating second wave of cases and officials are worried about more contagious virus strains making their way around the world. On the plus side, 35.8% of all Americans are now fully vaccinated.

On the other hand, the Centers for Disease Control and Prevention (CDC) announced that those fully vaccinated "can resume activities without wearing a mask or staying 6 feet apart, except where required by federal, state, local, tribal, or territorial laws, rules, and regulations, including local business and workplace guidance," while vaccines have proven in recent studies to be as effective as initially claimed,…

Interim Estimates of Vaccine Effectiveness of Pfizer-BioNTech and Moderna COVID-19 Vaccines Among Health Care Personnel — 33 U.S. Sites, January–March 2021

Early Release / May 14, 2021

This multisite test-negative design case-control study found that authorized mRNA COVID-19 vaccines (Pfizer-BioNTech and Moderna) are highly effective against symptomatic COVID-19 among HCP. Effectiveness of a complete 2-dose regimen of these vaccines was estimated to be 94%, consistent with findings from two clinical trials (*3,4*). Although the case definition applied in this study was broader than that used in both clinical trials (*3,4*), 93% and 88% of cases included in this study met the respective Pfizer-BioNTech and Moderna trial case definitions. The results are also consistent with findings from an observational study among the general adult population from Israel (*5*), two cohort studies among HCP from the United Kingdom,[††] and recently reported interim results from a U.S. cohort evaluation among HCP and frontline workers (*6*).



Summary

What is already known about this topic?

Health care personnel (HCP) are at high risk for COVID-19. The early distribution of two mRNA COVID-19 vaccines (Pfizer-BioNTech and Moderna) to HCP provided an opportunity to examine vaccine effectiveness in a real-world setting.

What is added by this report?

The first U.S. multisite test-negative design vaccine effectiveness study among HCP found a single dose of Pfizer-BioNTech or Moderna COVID-19 vaccines to be 82% effective against symptomatic COVID-19 and 2 doses to be 94% effective.

What are the implications for public health practice?

The mRNA vaccines are highly effective at preventing symptomatic COVID-19 among U.S. HCP. High vaccination coverage among HCP and the general population is critical to prevent COVID-19 in the United States.

…so we will not be surprised to see concerns about inflation remain elevated in the near-term. Clearly, anything can happen as we go forward, but we again offer the reminder that over the last nine decades, stocks have performed fine, on average, both concurrent with and subsequent to increases in the inflation rate.

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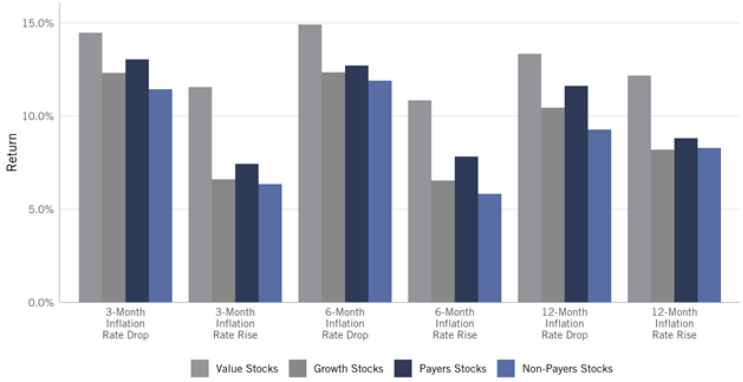
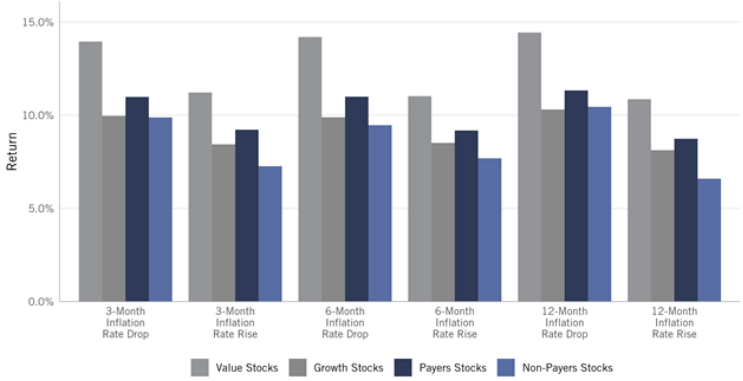
STAYING ON COURSE: INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



From 12.31.27 through 03.31.21. 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 03.31.21. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

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

We remain braced for more downside volatility, but the threat of inflation is no reason to alter our enthusiasm for our broadly diversified portfolios of what we believe to be undervalued stocks,…

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

…though we remain perplexed by the continued investor infatuation with no- or low-yielding government debt,…

Incredibly, investors around the world continue to love government debt, despite recent losses on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.

…especially given the magnitude of the losses suffered in Europe,…

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS

On 1.6.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €105.36. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €105.36, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.5% per annum, they must be thrilled with the 8-fold increase (the bonds have lost 4.0%) in their expected annual return in just five months!

…and here at home.

GOVERNMENT BONDS ARE NOT WITHOUT RISK

No doubt, returns have been stellar in recent years on the iShares 20+ Year U.S. Treasury ETF (TLT), but fixed income investors over the last nine-plus months have suffered a 18.9% loss...on a bond fund!

Obviously, bonds merit a place in many investor allocations, but those folks must be prepared for negative real, inflation-adjusted, returns, even if absolute returns are positive. So said Wharton Finance Professor Jeremy Siegel last week, as the *Stocks for the Long Run* author proclaimed, "The history is that stocks more than compensate for inflation and there's a lot of dividend paying stocks — 2%, 3%, 4%, 5%. So why would you go fixed income? The gap is huge. And that's what I think is going to continue to drive the money into the market despite the fears that the Fed will tighten in the future."

For those looking to generate income from their equity portfolios, we present a diversified listing of 30 stocks with capital appreciation potential AND dividend yields more than 100 basis points above the 1.63% current yield of the 10-year U.S. Treasury.

The Prudent Speculator's Undervalued >= 2.6% Yielders

Symbol	Common Stock	05.14.21 Price	Target Price	Div Yld	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Mkt Cap
AMGN	Amgen	$251.38	$288.75	2.8%	Pharma, Biotech	15.6	5.7	nmf	75.3	13.4	6.7	nmf	144,667
AVGO	Broadcom	$441.62	$514.66	3.3%	Semiconductors	18.8	7.3	nmf	17.9	18.1	6.9	nmf	180,645
BMY	Bristol-Myers Squibb	$64.88	$99.97	3.0%	Pharmas, Biotech	10.0	3.4	nmf	-14.2	76.0	9.1	nmf	144,923
C	Citigroup	$76.56	$102.76	2.7%	Banks	10.1	nmf	1.0	8.5	nmf	nmf	nmf	158,212
CAH	Cardinal Health	$56.34	$81.08	3.5%	Health Care Equip/Srvcs	9.7	0.1	nmf	76.9	12.7	9.6	nmf	16,309
CSCO	Cisco Systems	$52.90	$60.24	2.8%	Technology Hardware	16.8	4.7	76.3	27.1	14.2	6.4	350%	224,325
DLR	Digital Realty Trust	$148.88	$172.78	3.1%	Real Estate	23.4	nmf	5.0	2.7	nmf	nmf	nmf	43,188
DOC	Physicians Realty Trust	$18.09	$22.33	5.1%	Real Estate	17.1	nmf	1.5	2.6	nmf	nmf	nmf	3,898
HAS	Hasbro	$96.30	$121.83	2.8%	Consumer Durables	23.1	2.4	nmf	14.5	16.5	7.1	nmf	13,253
HPE	Hewlett Packard Ent	$16.26	$17.91	2.9%	Technology Hardware	10.9	0.8	nmf	-2.6	14.3	4.5	nmf	21,202
IBM	Int'l Bus Mach	$144.68	$173.09	4.5%	Software & Services	16.8	1.8	nmf	25.9	12.9	12.5	nmf	129,333
IP	Int'l Paper	$62.65	$70.05	3.3%	Materials	21.0	1.2	5.8	13.3	12.1	9.6	195%	24,562
JNPR	Juniper Networks	$26.58	$35.16	3.0%	Technology Hardware	16.3	1.9	25.5	4.7	16.6	4.8	542%	8,731
KEY	KeyCorp	$23.39	$26.22	3.2%	Banks	13.4	nmf	1.8	11.0	nmf	nmf	nmf	22,720
LEG	Leggett & Platt	$56.37	$62.97	3.0%	Consumer Durables	24.4	1.7	nmf	21.5	14.7	6.7	nmf	7,510
LMT	Lockheed Martin	$390.78	$505.59	2.7%	Capital Goods	15.6	1.6	nmf	142.5	11.8	5.4	nmf	108,750
MET	MetLife	$65.90	$87.04	2.9%	Insurance	9.7	nmf	1.1	1.8	nmf	nmf	nmf	57,718
MMM	3M	$204.38	$222.60	2.9%	Capital Goods	21.8	3.6	nmf	47.8	14.1	6.0	nmf	118,584
MRK	Merck	$78.29	$106.74	3.3%	Pharma, Biotech	13.4	4.1	nmf	26.4	20.7	3.3	nmf	198,412
NEM	Newmont Corp	$70.75	$81.01	3.1%	Materials	23.7	4.8	2.8	11.4	10.6	6.0	28%	56,630
NTR	Nutrien	$60.54	$69.87	3.0%	Materials	27.4	1.6	4.5	2.8	14.6	nmf	143%	34,566
PFE	Pfizer	$40.02	$50.99	3.9%	Pharma, Biotech	14.0	4.5	nmf	16.6	15.2	6.0	nmf	224,338
PNW	Pinnacle West Capital	$86.06	$105.67	3.9%	Utilities	17.5	2.7	1.8	10.0	9.7	-5.4	126%	9,702
PRU	Prudential Fin'l	$107.68	$133.38	4.3%	Insurance	8.9	nmf	0.7	4.4	nmf	nmf	nmf	42,410
SJM	JM Smucker	$135.33	$141.89	2.7%	Food, Beverage & Tobacco	13.8	1.8	nmf	11.6	9.7	8.4	nmf	14,853
STX	Seagate Tech	$97.97	$102.25	2.7%	Technology Hardware	19.6	2.2	nmf	87.7	15.9	4.3	nmf	22,662
T	AT&T	$32.24	$43.04	6.4%	Telecom Services	10.1	1.3	nmf	-1.4	11.1	12.8	nmf	230,372
TFC	Truist Fin'l	$61.64	$72.93	2.9%	Banks	14.9	nmf	2.5	7.6	nmf	nmf	nmf	83,011
TOT	Total S.A.	$48.73	$74.44	5.3%	Energy	25.4	1.0	1.5	-3.6	7.5	6.5	64%	127,915
VZ	Verizon Comm	$58.69	$75.43	4.3%	Telecom Services	11.9	1.9	nmf	28.7	8.9	10.4	nmf	243,539

As of 5.14.21. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

True, stocks come with higher volatility, but those who share Jeremy Siegel's and our long-term time horizon should like the 96.3% and 95.2% respective historical 10-year returns race odds that favor Value stocks and Dividend Payers versus what is currently being offered by Uncle Sam's benchmark government bond.

THE PRUDENT SPECULATOR

THE LONGER THE HOLDING PERIOD, THE LOWER THE RISK

While fixed income investments generally boast lower volatility than equities, it is nice to see the historical odds of Value Stocks and Dividend Payers outperforming the recent 1.63% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >1.63%	Count <=1.63%	Percent >1.63%
1 Month	703	422	62.5%
3 Months	746	377	66.4%
6 Months	773	347	69.0%
1 Year	787	327	70.6%
2 Year	886	216	80.4%
3 Year	931	159	85.4%
5 Year	932	134	87.4%
7 Year	989	53	94.9%
10 Year	969	37	96.3%
15 Year	940	6	99.4%
20 Year	886	0	100.0%

DIVIDEND PAYERS

	Count >1.63%	Count <=1.63%	Percent >1.63%
1 Month	697	428	62.0%
3 Months	753	370	67.1%
6 Months	784	336	70.0%
1 Year	822	292	73.8%
2 Year	914	188	82.9%
3 Year	907	183	83.2%
5 Year	944	122	88.6%
7 Year	980	62	94.0%
10 Year	958	48	95.2%
15 Year	928	18	98.1%
20 Year	886	0	100.0%

From 07.31.27 through 03.31.21. 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

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 8 of our companies that either had news out last week of sufficient interest to merit a Target Price review or are worthy of comment, while we are in the process of posting our updated full Target Price listing to theprudentspeculator.com.

Shares of **Air Products and Chemicals** (APD – $301.05) rose 3.6% last week as the specialty chemical maker reported solid fiscal Q2 financial results. A nearly 13% year-over-year sales increase was driven by higher energy cost pass-through, favorable currency rates and higher prices (2%). Volumes were flat relative to last year, as growth from new plants, acquisitions and increased sale-of-equipment activity was offset by reduced contributions from the Lu'An gasification project, lower merchant demand due to COVUD-19 and winter storm Uri's negative impact on the U.S. Gulf Coast. The restart of Lu'An is underway and we think closing of the

Jazan industrial gas project financing could be a positive catalyst before the end of this year or the first part of next.

CEO Seifi Ghasemi commented, "Despite ongoing challenges from COVID-19 globally and the severe winter storm in the U.S. Gulf Coast during the quarter, our talented, committed and dedicated team continued to work tirelessly, supporting our customers and successfully executing our megaprojects. Adjusted EPS improved over the prior year, we continued to improve pricing, and we again generated strong cash flow. Meanwhile, Air Products continues to lead with world-scale energy transition projects in gasification, carbon capture and carbon-free hydrogen."

We like that industrial gases are indispensable, yet they account for a small fraction of overall costs for those who use them, so customers are often willing to pay up and enter long-term contracts to ensure they have what they need in a timely fashion. After acquiring Shell and GE's gasification businesses, APD is now the global leader in this segment, setting it up for material opportunity in China and India as those economies continue to industrialize and expand. We are also constructive on the company's efforts in on-site investments with its customers, as they often provide more stable cash flows. And we are intrigued by the potential for more widespread use of alternative fuels, such as renewable diesel, which requires much more hydrogen to produce than petroleum-derived diesel. High-quality APD sports a 2.0% dividend yield and excellent long-term growth potential. Our Target Price for APD has been boosted to $346.

After posting solid fiscal Q2 results that included a better-than-expected top- and bottom-line, shares of **Tyson Foods** (TSN – $80.34) ended the week up a bit shy of 2% in price. Given the boost in costs to contain COVID-19 in its plants, and inflation across hogs, chicken, feed, labor and freight, we are pleased with the numbers. Despite the headwinds, TSN enjoyed a more than 7% increase in selling price of beef, the company's largest contributor to operating profits over the past three years (more than 40%). We think given the global landscape, Tyson should be able to increase prices for pork and prepared foods, but the chicken biz will continue to struggle in the near-term. Tyson can't be faulted for industrywide issues such as a drop in hatchability, spikes in grain prices, labor shortages or power issues from February storms, but it is also dealing with self-made issues including production inefficiencies and decreased customer service levels. That said, we were pleased to see that the company has reduced debt by another $1 billion and liquidity at the end of the period stood at $2.6 billion.

CEO Dean Banks commented, "We're grateful for our team members' continuing efforts and resilience, and for the collaboration and support we've received from our customers as we navigate these challenging times. We delivered a very strong performance in a complex operating environment with continued success in retail and improvements in foodservice as the industry is recovering. We generated adjusted operating income growth of 32% for the first half of fiscal 2021, driven by solid results in Beef and Prepared Foods."

"We're seeing substantial inflation across our supply chain, which will likely create margin pressure during the back half of the year," Mr. Banks added. "We will remain focused on the factors we can control and will continue to work diligently for a full recovery of our Chicken business, while delivering strong results in other areas of our company. Our long-term outlook is

bright as global protein consumption continues to grow, and we expect our investments in capacity expansion, product innovation and technology to create sustainable shareholder value."

To be sure, operational difficulties aren't going away, but we believe Tyson should continue to benefit from positive trade developments as African Swine Fever has caused global pork issues, especially in Asia, and the company is well positioned to supply China with pork and other proteins and backfill other markets. The near term is definitely murky, especially with rising input costs and numerous economies at various stages of emergence from pandemic lockdowns. Still, we like the potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as citizens see quality-of-life improvements. With a reasonable forward P/E ratio of 14 and a yield of 2.2% and our Target Price for TSN now resides at $98.

Marine shipping concern **SFL Corp Ltd.** (SFL – $8.85) reported earnings per share of $0.22 in Q1, a decline of 48% versus the same quarter a year ago. Gross charter hire revenue in the period was $135 million (55% from containerships), 85% of which was from long-term charters and 15% from short-term charters with spot market exposure. The firm's backlog remains $2.4 billion over 7.2 years by weighted contract revenue, with the two largest liner operators (Maersk and MSC) representing 59% of the total. Adjusted EBITDA in the quarter was $98 million, or $0.84 per share. Three of the company's offshore drillships are on long-term charters to subsidiaries of Seadrill, which has entered bankruptcy court again for its second restructuring effort in the past four years. An interim agreement allows sub-charters of vessels West Linus and West Hercules to continue uninterrupted, with 75% of the invoiced lease hire payable to SFL to cover debt service related to the rigs. SFL also refinanced its convertible bond issue maturing in October with the successful placement of a $150 million senior unsecured sustainability-linked bond.

CEO Ole Hjertaker commented on recent transactions, "We are pleased to execute on our commitment to invest in assets and markets with a lower carbon footprint. We have spent a lot of time evaluating various new technology initiatives that can improve performance of vessels, including existing vessels on the water. In April, we agreed with the Volkswagen Group to build and charter out 2 newbuild dual-fuel car carriers designed to use liquefied natural gas, or LNG, for propulsion. The charter period is 10 years from delivery in 2023. And until the new vessels are delivered, Volkswagen will charter our 2 existing car carriers, SFL Composer and SFL Conductor, and we intend to cooperate with our customer to use eco-friendly biofuel for the propulsion of our 2 existing car carriers. The transaction adds more than $200 million to the fixed rate charter backlog, and importantly, also added another end user to our customer portfolio. And maintaining market-leading operational standards and close relationships with end users pays off, as illustrated by another deal with Maersk Line, where we have agreed to purchase a 2020 build 5,300 TEU container vessel, in combination with a long-term charter. The delivery is expected to take place in the third quarter of 2021, and we will then have 13 vessels on charter to Maersk Line. All these are on time chartered terms where we are responsible for technical management and vessel operations. And while the purchase price is confidential on this last vessel, we can confirm that it's well below current charter-free broker valuations, adding a nice offer for us."

Mr. Hjertaker concluded, "Over the years, we have gone from a single-asset class chartered to one single customer to a diversified fleet and multiple counterparties. And over the time, the mix of the assets and charter backlog has varied from 100% tankers initially to nearly 60% offshore 10 years ago to container and car carriers now being the largest segment with 77% of the backlog. If you look at the counterparties, it is now mainly to end users and market leaders in their respective segments and relatively fewer intermediaries where we have less visibility on the use of the assets and quality of operations. Strategically, this gives us access to more deal flow opportunities such as the repeat business with Maersk and MSC, for example. Our strategy has therefore been to maintain a strong technical and commercial operating platform in cooperation with our sister companies in the Seatankers Group. This gives us the ability to offer a wider range of services to our customers from structured financing to full-service time charters, which is where most of our asset portfolio lies. And with full control of vessel maintenance and performance, including energy efficiency and emission-minimizing efforts, we can impact improvements to our vessels through the life of the assets and not only be passively owning vessels employed on bareboat charters where the customers may not always have an incentive to make such improvements."

The stock has rebounded markedly since dipping below $6 just before Christmas. But our patience has certainly been tested over the past year with much of the volatility owing to significant uncertainty as the pandemic weighed on global trade and energy markets, particularly given the situation with Seadrill. Nevertheless, we continue to appreciate the stability management has built into an otherwise highly volatile and unpredictable maritime shipping industry. Reduced last November, the dividend remains $0.15 per share, which affords a current yield of 6.8%, and we note that the company has paid shareholders approximately $28 per share since its inception in 2004. Shares trade for 1.4 times book value and our Target Price is presently $11.

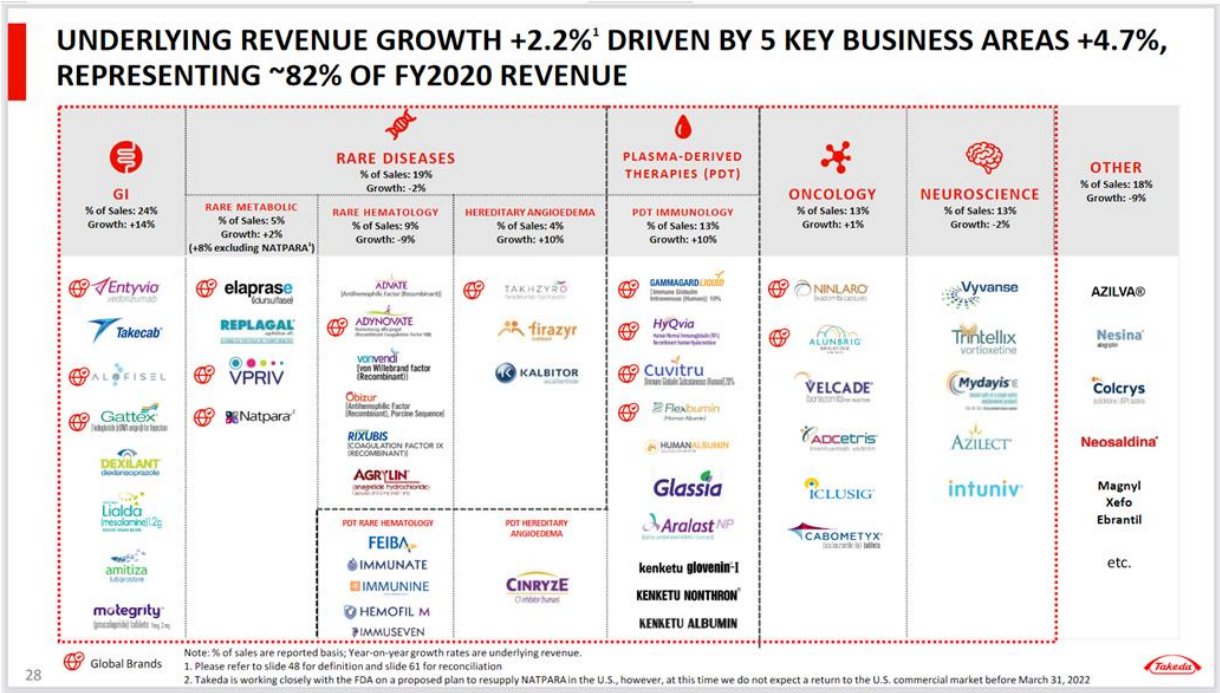
Japanese telecommunications giant **Nippon Telegraph and Telephone** (NTTYY – $26.61) reported last week that it earned $0.22 per share (mostly in line with the consensus estimate) in Q4 of fiscal 2021, bringing earnings per share for the full year to $2.34. Revenue was flat for all of 2020 at $112.7 billion, although a modestly stronger yen throughout the year offered a 2% benefit in U.S. dollars. Gains in mobile offset declines across fixed line, wireless and telecom equipment segments. The company recently paid a 40% premium to consolidate the remaining third of NTT Docomo that it didn't already own. Management thinks the move will enhance flexibility and decision-making, although it is mainly an effort to use scale to placate calls by prime minister Yoshihide Suga to lower mobile fees.

CEO Jun Sawada guided for NTTYY to earn at least 1 trillion yen, or 300 yen per share in the current fiscal year, which translates to $9 billion, or close to $2.80 per share.

We think Docomo is one of the more attractive assets within Nippon's portfolio, but we are mindful that the Japanese government effectively now owns a greater share given its 1/3 ownership of NTT. In the intermediate-to-long term, we appreciate the firm's exposure to trends in 5G, cloud and increased data transmission. Shares trade at less than 10 times fiscal 2021 earnings estimates and boast a net dividend yield of 3.2%. Our Target Price for NTTYY is now $35.

Shares of **Takeda Pharmaceuticals** (TAK – $17.12) were modestly higher last week after the Japanese drugmaker reported full-year financial results for the fiscal year ended March. EPS topped expectations, coming in at 247 yen, compared to projections of 175 yen, on revenue of 3,198 billion yen. Sales increases within Gastroenterology and Plasma-Derived Therapies were more than offset by declines in the Oncology, Neuroscience and Rare Disease segments, resulting in a 2.8% revenue decline for the business overall. Looking to the current fiscal year, Takeda is projecting revenue of 3,379 billion yen, an increase of more than 5% despite headwinds from non-recurring divestitures, with the current analyst EPS estimate standing at 408 yen, which translates to $1.88 per U.S. share (American Depository Receipt).

CFO Constantine Saroukos explained, "We have consistently delivered management guidance over the past few years through the integration and through the COVID-19 pandemic. We have realized synergies of $2.3 billion 1 year ahead of the plan, and they have been — they've actually enabled us to expand our margins, reaching 30.2% underlying core operating profit margin in fiscal 2020. We have also exceeded our noncore asset divestiture target with up to $12.9 billion of deals announced versus the initial goal of USD 10 billion. And we have made excellent progress with deleveraging, reaching 3.2x net debt to adjusted EBITDA in March 2021, down from 4.7x 2 years prior. Moving to the future. We expect top line growth to accelerate in fiscal 2021, with guidance of mid-single-digit underlying revenue growth, and we expect this momentum to continue over the medium term, driven by our 14 global brands and Wave 1 pipeline launches. Fiscal 2021 will be an inflection year for the pipeline as we ramp up investment in R&D. We are now targeting margins in the low to mid-30s over the medium term. Meanwhile, we expect to continue making progress with deleveraging and are on track towards low 2x net debt to adjusted EBITDA ratio."



CEO Christophe Weber concluded, "We are closing the year 2020 with a 2.2% revenue growth on an underlying basis. And if you look at 2021, we are seeing this growth outlook to accelerate to a mid-single-digit underlying revenue growth, which is driven by our core businesses, our 14 global brands. So we do see this momentum. And we do describe the 2021 year as an inflection year, not only for our business, again, because we have delivered our synergies, our growth is accelerating, but because also because of the pipeline. And we do expect the year 2021 to be a very special year in terms of the pipeline maturity and the pipeline progression."

We like that Takeda is doubling down on R&D and appears to have a lot of promise in its pipeline with six regulatory submissions for new molecular entities and seven to be involved in studies across 10 indications scheduled for FY 2021. We appreciate the global footprint and stable of premier franchises that the Shire purchase offers, and that headway is being made on the debt used to finance the acquisition (currently $41.9 billion down from $48 billion a year ago). TAK shares change hands around 9 times estimated earnings and the net dividend yield is 4.4%. Our Target Price now stands at $26.

Allianz SE (ALIZY – $26.43) posted adjusted EPS of $0.76 in Q1 2021 (higher than the $0.58 estimate and double the figure earned in Q1 2020) as business for the diversified German insurer and financial services provider improved, especially in the Asset Management area, which

includes PIMCO. The Property-Casualty and Life-Health businesses declined slightly, which was explained to be a result of the pandemic. ALIZY saw a 500-million-euro improvement in operating profit driven by a better combined ratio. Allianz targets a combined ratio of 93%, which indicates a profitable insurance business.

CFO Giulio Terzariol commented, "I will say very strong quarter. It's not just about the EUR 3.3 billion of operating profit or the EUR 2.6 billion net income. It's also about the underlying 93 combined ratio — 93% combined ratio in Property-Casualty with quality, a decrease of the expense ratio. In Asset — in Life, you'll see that our new business margin, as we speak, is already 3%, and we're getting premium. And you can also see the operating profit is very, very, very stable. And in Asset Management, we have a record level of asset management flows. We have also, I will say, a very strong cost/income ratio at AGI. We are starting with an asset base which is a very good starting point as we think about the remainder of the year. There is a lot of strength in the underlying of the business, and that's across the segments. On top of that, the solvency ratio at 210% is very far away from 180%. We feel pretty good about the start of the year and also about how we are positioned to go into the remainder of the year."

Allianz reaffirmed its expectation for $14.5 billion of operating income for fiscal 2021, and we have been pleased to see the company navigate the negative-to-microscopic global yield environment better than some of its peers. Of course, it certainly helps to have asset managers, including bond manager PIMCO, to diversify the income stream, while management has been diligent to improve operating ratios and minimize losses. Shares continue to look attractive, trading for just under 11 times estimated earnings and boasting a net dividend yield of 3.1%. Our Target Price now stands at $34.

NortonLifeLock (NLOK – $26.09) skyrocketed more than 23% last week in the wake of the Colonial Pipeline hacking and after the cybersecurity firm beat analyst EPS and sales estimates. In fiscal Q4 2021, NLOK earned an adjusted $0.40 per share (vs. $0.38 est.) and had $672 million of revenue (vs. $658 million est.). In the upcoming quarter, NLOK expects to earn between $0.40 and $0.42 per share with revenue between $680 million and $690 million. NLOK benefitted from an increase in direct customer count from 20 million to 23 million and protects 80 million people from digital threats. The sale of the Enterprise business to **Broadcom** (AVGO – $ 441.62) has allowed NLOK to add new functionality, new services, new products and an international presence.

CEO Vincent Pilette commented, "To deliver on our vision, we have our key capabilities that we're constantly refining to adjust to the market opportunities. We made them fit better together to build an integrated cybersafety platform. Consumer insights feed constant improvements, and customer experience is supported by the largest and strongest service organization in consumer cybersafety. We are increasing our investment to create a single and consistent experience across all of our products, localizing where it makes sense. We have a vast portfolio, developed by over 1,000 engineers with leading technologies. From standalone products to comprehensive plans, we look to protect everyone with innovative and easy-to-use products. We are focused on accelerating the pace of our new releases, whether they are new features, new products or platform upgrades. We also have a hero brand, Norton, that inspires trust globally. We're doubling down into our hero brand to reach out to new cohorts and expand internationally. And

we have other well-recognized brands such as LifeLock and Avira that are use case specific. Actually, our ability to manage multiple brands allows us to differentiate where it matters."

Mr. Pilette continued, "Our global reach is diverse from strategic alliances to direct relationships. We are accelerating our go-to-market investments. After increasing our marketing spend, we're now focused on increasing our operations into key international markets, going direct to consumers and through partners. And then the glue that brings these capabilities together is our relentless focus on execution. We operate with discipline, we capture productivity gains, and we prioritize our investments. We also use capital to accelerate our transformation with acquisitions. As you've recently seen with the Avira acquisition, overall, we use every lever in a disciplined fashion to sustainably meet our commitments and in pursuit of our vision. It is a very exciting vision that this company has embarked on. It's actually a privilege for me to lead it. And while we have already accomplished a lot since we launched NortonLifeLock over a year ago, we are just getting started. We've embarked on our mission to build the most comprehensive cybersafety platform and expanded with trust-based digital solutions. In short, our future is very bright."

We think that cyberattacks will be around forever, with the financial upside more than sufficient to offset the risks (as evidenced by the reported $5 million ransom paid on the Colonial hack). In instances where there isn't financial upside, there's intellectual property theft and havoc to be avoided. That should result in growing demand for NLOK's cybersecurity platform around the world, while we continue to be impressed with management's ability to keep operating costs down. We think that NLOK has plenty of room to grow and we believe that cybercrime is showing no signs of abating. Our Target Price for NLOK has been raised to $32.

Entertainment powerhouse **Walt Disney Co.** (DIS – $173.70) earned $0.79 per share in Q2, versus the analyst consensus estimate of $0.32. Revenue came in at $15.6 billion, versus the $15.9 billion estimate. The Disney+ subscriber count was 103.6 million, about 6 million lower than what analysts were expecting, while the Parks, Experiences & Products business posted an operating loss of $406 million. Disney continues to focus on safely reopening parks and ramping up its studio production schedule.

CEO Bob Chapek commented, "Our strategic focus continues in 3 key areas. First is direct-to-consumer. We successfully launched our streaming offerings, Disney+ and Star, in a number of markets internationally. And we've been pleased with the growth and engagement in those markets to date. Our steady cadence of new, high-quality branded content, along with our robust collection of library titles, allows us to continually attract new subscribers and retain existing ones. At the same time, we are also closely monitoring the recovery of theatrical exhibition as consumers begin to return to theaters, and I'll talk more about the specifics later. Finally, we are focused on the ongoing recovery of our parks business and the resumption of Disney Cruise Line. There have been some encouraging developments in recent months, particularly with the ongoing rollout of the vaccine and the gradual lifting of government-mandated restrictions. And through this time, we've taken advantage of the opportunity to make improvements to our operating procedures to enhance the guest experience through the use of technology innovations, new ticketing strategies and other offerings."

Mr. Chapek continued, “It’s been fantastic to see cast members back at work. Most recently at Disneyland, we were able to quickly recall more than 10,000 furloughed casts and retrain them to be able to operate to the state of California’s new health and safety requirements. We continue to see strong, growing demand from consumers as we are at or near our reduced capacity levels at both Walt Disney World and Disneyland for the current quarter. It’s clear our guests are excited to get back to experiencing the magic of Disney, and they also have extraordinary confidence in our safety protocols. At Shanghai Disney Resort, where they just kicked off their year-long fifth anniversary celebration, the park is operating at or above FY ’19 levels. We’re also encouraged by what we’re seeing at Hong Kong Disneyland, and we are hopeful we will be able to announce a reopening date for Disneyland Paris soon.”

CFO Christine McCarthy said, “Forward-looking bookings for park reservations at both of our domestic parks are strong, demonstrating the strength of our brands as well as growing travel optimism as case counts decline, vaccine distribution ramps and government restrictions loosen. Looking ahead, there are a couple of items I would like to mention. At linear networks, we expect a significant decline in operating income year-over-year in the third quarter, largely due to higher sports programming and production costs at ESPN, which we expect to increase by $1.2 billion versus prior year. This year’s Q3 includes marquee events such as the NBA, Major League Baseball, the Masters, Wimbledon and the European Football Championship. which compares to Q3 of last year, during which we had a limited slate of events due to COVID. At our Direct-to-Consumer business, we now plan to launch STAR+, our stand-alone general entertainment and sports streaming service for Latin America, on August 31. Moving the launch to late summer allows us to leverage a strong sports calendar which includes the return of European soccer leagues, including La Liga and the Premier League. Championship games for the Copa Libertadores, the prominent regional international soccer competition, along with Grand Slam tennis. We remain right on track to reach our fiscal 2024 guidance of 230 million to 260 million subs, powered by the addition of 30 million paid Disney+ subs in the first half of the year. And notwithstanding our expectation for fewer net sub adds in the second half of the year given the COVID-related suspension of the IPL season and our decision to move the Star+ Latin America launch to the fourth quarter, we remain very optimistic about our future.”

Despite the pandemic-forced closure of Disney’s famous (and lucrative) parks around the world, the company reported a loss in just one quarter last year, a testament to the company’s passionate fans and diverse income stream. Analysts expect DIS earnings per share this year to come in around the $2 level, but think that number will swell near $5 in 2022 and above $6 in 2023. Of course, that makes DIS look very expensive in the near term, and much less expensive over the long term. We continue to like management’s choices to leverage Disney’s deep content portfolio, while we think that rest of the business lines are poised for a great rebound as the pandemic recedes. Our Target Price for DIS has been trimmed to $210.