Market Commentary Monday, May 24, 2021

May 23, 2021

EXECUTIVE SUMMARY

Week in Review – Volatile Five Days…Growth Beats Value
Econ Outlook – Robust Forward-Looking Measures
Earnings – Strong Growth Projected This Year and Next
Dividends – Yields on Stocks Compare Very Favorably
Taper Tantrum – 2013 and 2014 Kind to Equities
Inflation & Equity Returns – Historical Number Crunching
Government Bond Rate Movements & Returns – Stocks (Value) the Place to Be When Treasury Yields Rising
Sentiment – Not a Lot of Optimism
Stock News – Updates on T, STX, WMT, TGT, LOW, KSS, FL, DE & CSCO

Market Review

It was another volatile week for equities, even as the major market averages ended with relatively modest losses for the full five-day period, with Growth winning the short-term returns race.

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NOT A GREAT WEEK…AND VALUE LAGGED

Volatility remained high as investors evidently were worried about the crash in cryptocurrencies, the spike in inflation and Federal Reserve actions, with most stocks seeing a second straight weekly decline.

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
0.30	-2.80	0.30	2.29	4.72	9.31	11.08	14.30	16.07	Bloomberg Barclays Global-Aggregate Bond
0.07	-2.63	-1.54	-2.02	-0.47	3.61	10.06	16.98	17.17	Bloomberg Barclays US Aggregate Bond
-0.43	12.61	30.58	35.41	42.66	88.51	38.30	46.39	119.53	Dow Jones Industrial Average
-0.21	13.67	33.36	39.91	47.56	91.85	35.35	38.23	81.93	New York Stock Exchange Composite
0.14	4.39	21.18	26.47	41.80	94.44	66.37	80.09	169.72	Russell 3000 Growth
-0.71	**17.73**	**39.44**	**47.73**	**51.25**	94.90	**35.11**	**39.51**	**81.65**	**Russell 3000 Value**
-0.30	10.81	29.89	36.54	46.80	95.95	51.96	60.81	124.85	Russell 3000
-0.64	17.65	40.22	50.90	58.10	112.02	48.24	55.49	109.60	S&P 500 Equal Weighted
-0.39	11.29	28.22	33.65	43.24	89.40	50.42	60.84	123.04	S&P 500
-0.13	6.40	21.48	26.66	40.30	90.12	59.24	74.46	154.89	S&P 500 Growth
-0.66	**16.84**	**36.51**	**42.23**	**45.15**	85.62	**38.01**	**43.56**	**86.68**	**S&P 500 Value**
0.91	2.59	20.35	26.35	37.68	95.35	45.69	50.05	119.84	S&P 500 Pure Growth
-0.95	**31.05**	**62.19**	**80.26**	**82.09**	142.16	**32.18**	**29.10**	**80.12**	**S&P 500 Pure Value**

As of 05.21.21. Source Kovitz using data from Bloomberg

As usual, the financial press tried to find reasons for the gyrations, with *The Wall Street Journal* citing one market watcher, "In reality, people are still apprehensive about what the economy will look like one month from now, two months from now, six months from now." Not sure this observation provided anything of substance as nobody has a crystal ball and investors have never known for sure what the economy will look like in the future, though a prominent forward-looking measure, the Conference Board's Leading Economic Index, suggested that the outlook is quite favorable,…

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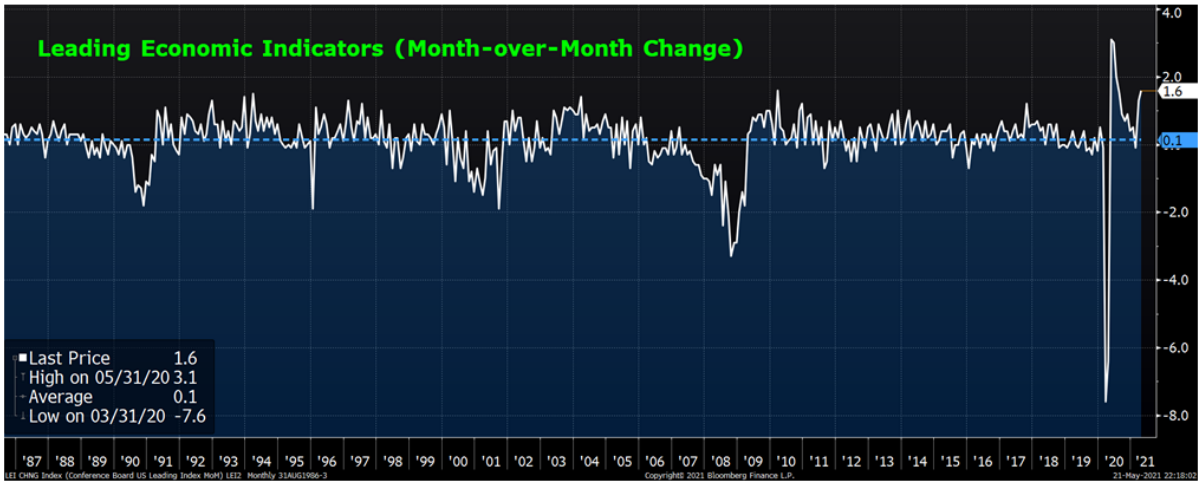
LEI SOARS – 6.4% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index jumped 1.6% in April. The keeper of the metric stated, "The U.S. LEI has now recovered fully from its COVID-19 contraction—surpassing the index's previous peak, reached at the very onset of the global pandemic in January 2020. While employment and production have not recovered to their pre-pandemic levels yet, the U.S. LEI suggests the economy's upward trend should continue and growth may even accelerate in the near term."



…with the optimism echoed by the latest purchasing manager surveys compiled by IHS Markit on the health of the manufacturing and services sector,…

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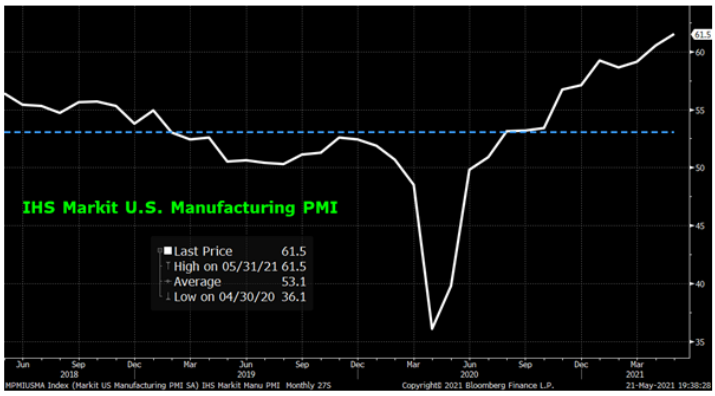
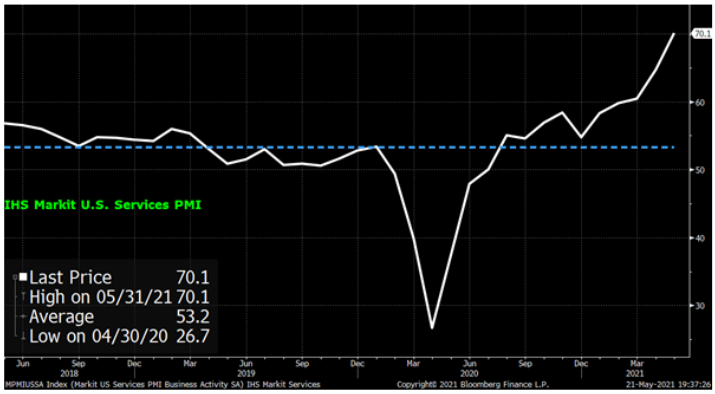
RECORD IHS MARKIT PMI'S IN MAY





IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in May came in at 61.5 and 70.1, respectively, smashing record highs for the relatively young data series. IHS stated, "With businesses optimistic about the outlook, backlogs of orders rising sharply and demand continuing to pick up both at home and in export markets, the scene is set for strong economic growth to persist through the summer."

…as well as the latest readings on East Coast factory activity.

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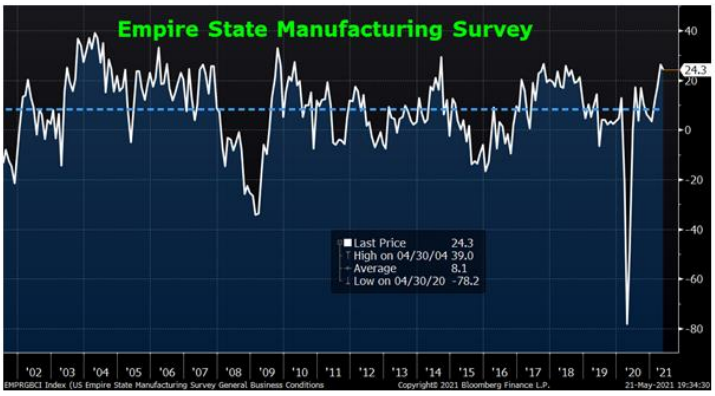
EAST COAST FACTORY ACTIVITY STILL VERY STRONG IN MAY



The Empire State gauge of manufacturing activity in the New York area pulled back a tad in May to 24.3, after hitting its best level since October 2017 in April, with the index well above average for this business conditions measure. The Philadelphia Fed's May measure of manufacturing activity in the mid-Atlantic region fell to a still-very-high reading of 31.5, down from a 50-year high of 50.2 the month prior.

That is not to say that everything is completely rosy, as the latest housing numbers, though still robust, were below expectations,…

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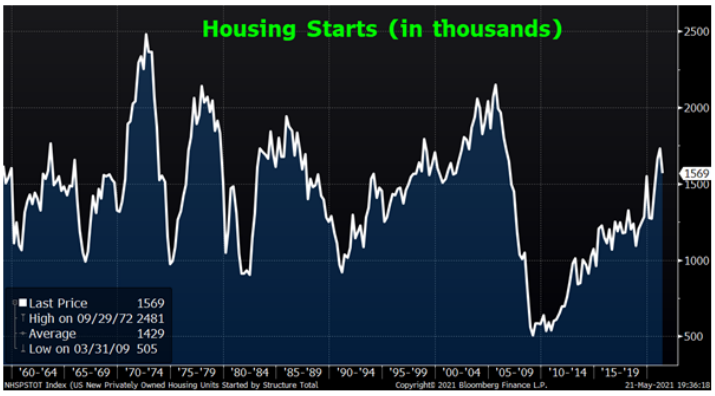
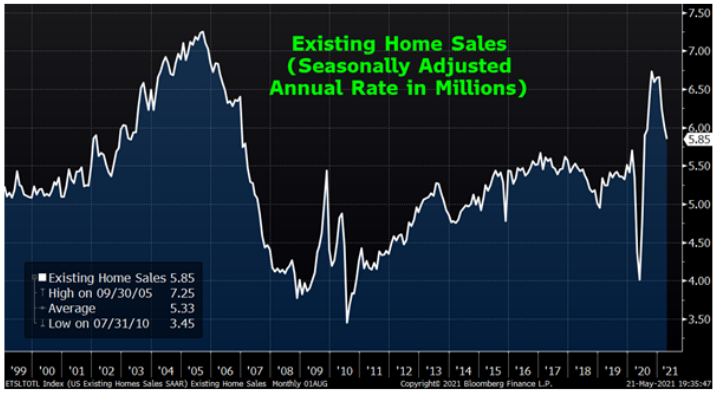
HOUSING MARKET COOLS SOMEWHAT





Record low mortgage rates and stimulus from Uncle Sam are supporting the housing market, but shortages of labor and building materials saw builders begin construction of new homes at a seasonally adjusted annual pace of 1.57 million, down 9.5% from the month prior. Meanwhile, low inventory and higher prices (record median of $341,600) sent sales of existing homes down 2.7% in April to a seasonally adjusted annual rate of 5.85 million.

…and there continue to be lots of folks on the unemployment line.

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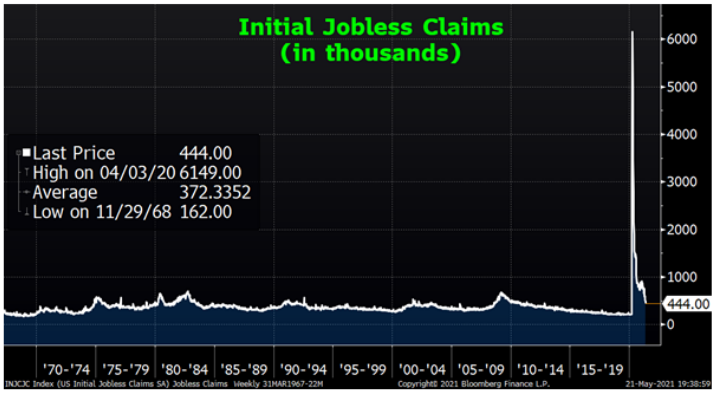
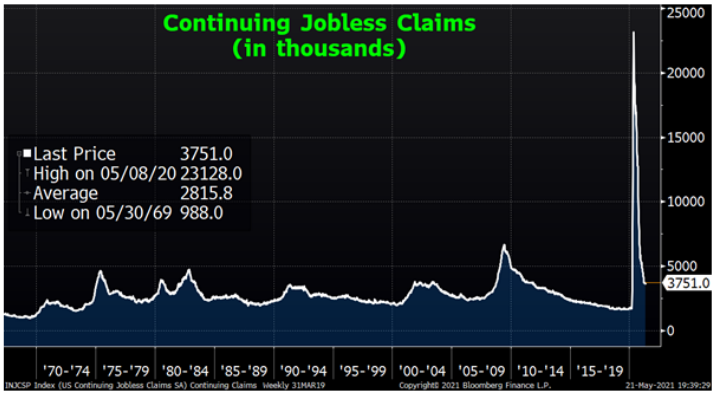
FIRST-TIME FILINGS CONTINUE TO DECLINE



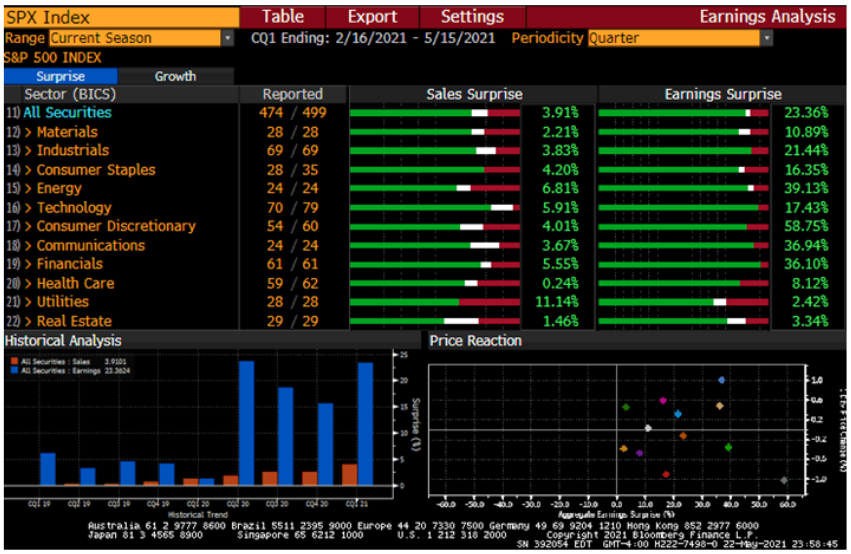


The jobs market continued to improve in the latest week, with new filings for unemployment benefits falling to a seasonally adjusted and better-than-expected pandemic low of 444,000 for the period ended May 15, down 34,000 from the week prior. Continuing claims filed through state programs inched up to 3.75 million, still near a pandemic low, though there have been 81 million jobless applications filed over the last 61 weeks.

Even so, estimates for stellar corporate profit growth this year and next have continued to increase,…

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. 86.9% of S&P 500 companies have topped EPS expectations and a very high 71.5% 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	$55.56	$208.84
9/30/2022	$53.47	$201.99
6/30/2022	$50.32	$194.89
3/31/2022	$49.49	$188.02
12/31/2021	$48.71	$186.18
9/30/2021	$46.37	$175.65
6/30/2021	$43.45	$167.18
3/31/2021	$47.65	$150.52
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 5.20.21

…which will only add to the relative appeal of equities from an earnings yield perspective as the $186.18 EPS estimate for the S&P 500 for 2021 would produce an earnings yield of 4.48% and the $208.84 EPS estimate for 2022 would provide an earnings yield of 5.03%, if the S&P did not change from its current level.

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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 (3.38% vs. 1.62% 10-Year) and generous S&P 500 dividend yield of 1.39%.

To be sure, earnings are not returned to shareholders in their entirety, but already this year, U.S. companies have authorized $504 billion of share repurchases, according to Goldman Sachs data through May 7, the greatest amount during that period in at least 22 years. And, dividend payments have also been on the rise,…

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DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has raised distributions over time. Per share dividends for the S&P 500 inched up in 2020, even as 69 companies either decreased or suspended their payouts in the face of the COVID-19 pandemic.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 5.20.21)	166	7	1	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2022 (Est.)	$63.89
2021 (Est.)	$59.54
2020	$58.88
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39

Source: Bloomberg. As of 5.21.21

…with the income offered by our broadly diversified portfolios very attractive these days,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	18.4	15.0	1.3	2.5	2.1
ValuePlus	20.0	15.5	1.6	2.4	1.9
Dividend Income	17.7	14.6	1.1	2.5	2.5
Focused Dividend Income	17.8	14.8	1.3	2.6	2.5
Focused ValuePlus	17.8	15.7	1.7	2.7	2.1
Small-Mid Dividend Value	17.0	13.9	0.8	1.8	2.1
Russell 3000	33.2	23.4	2.8	4.2	1.3
Russell 3000 Growth	44.0	30.8	4.6	11.2	0.8
Russell 3000 Value	27.0	19.0	2.1	2.6	1.9
Russell 1000	30.4	22.9	3.0	4.4	1.3
Russell 1000 Growth	37.7	29.5	4.8	11.9	0.8
Russell 1000 Value	25.7	18.9	2.2	2.7	1.9
S&P 500 Index	29.6	22.4	3.0	4.5	1.4
S&P 500 Growth Index	34.5	27.7	5.4	10.1	0.8
S&P 500 Value Index	25.8	18.7	2.1	2.8	2.0
S&P 500 Pure Value Index	17.0	12.5	0.8	1.4	2.3

As of 05.22.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…especially considering the comparisons to yields on competing investments.

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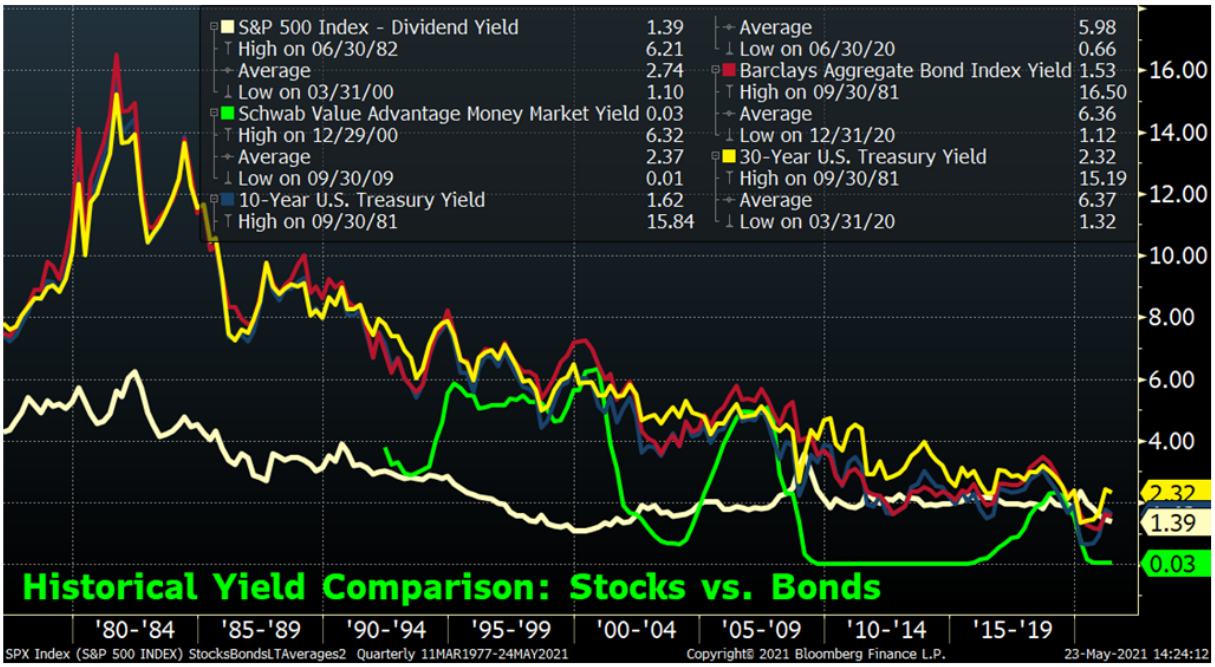
EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.39%) is generous versus the income provided by fixed income. Incredibly, **equities yield almost as much as the Barclays Aggregate Bond Index and 46 times the yield of a "generous" Money Market Fund!**



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The Associated Press found a different market pundit to explain the movements of stock last week: "There's a lot of churning going on in the markets. Here we are near all-time highs on the S&P 500, and there's so much uncertainty about what is actually happening with inflation, how long it's going to last and how the Fed will react."

Those comments came in response to the release of the minutes from the Federal Open Market Committee's April 27-28 meeting, in which Jerome H. Powell & Co. noted that a "number" of officials said that "if the economy continued to make rapid progress toward the committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."

No doubt, there will be some market indigestion when the Federal Reserve admits that it is talking about talking about tightening monetary policy, but as was the case back in 2013, we do not think long-term-oriented investors need lose much sleep over the threat of a tapering,…

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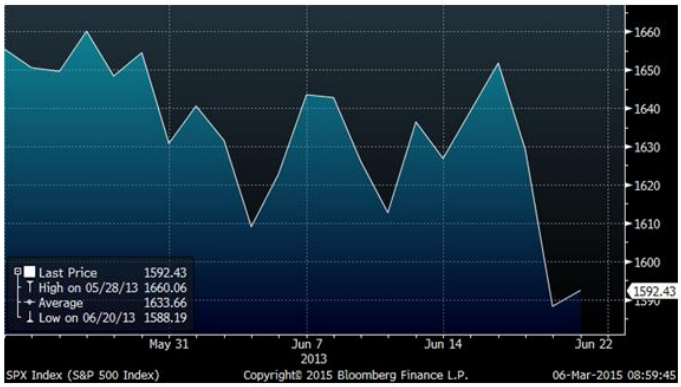
2013 "TAPER TANTRUM" WARNING

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.

…especially as the actual tapering that began in 2014 did not prove to be anything more but a short-term equity-market headwind, with the S&P 500 today standing at a price more than double where it ended that year.

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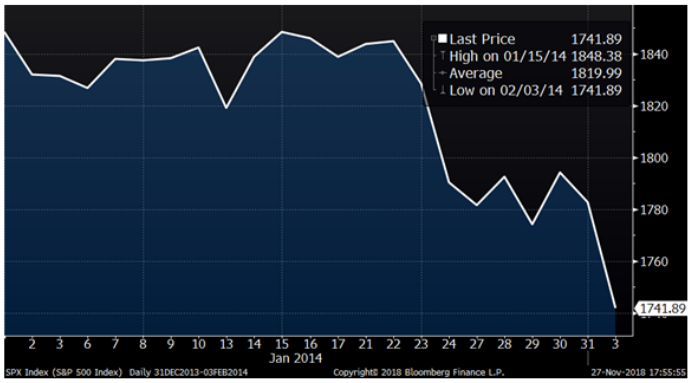
2014 "TAPER TANTRUM" REALITY

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.

We note that on Wednesday, St. Louis Fed President James Bullard said, "If we got to the point where we were comfortable on the public health side that the pandemic was largely behind us…and was not going to resurge in some way that was surprising, then I think we could talk about adjusting monetary policy."

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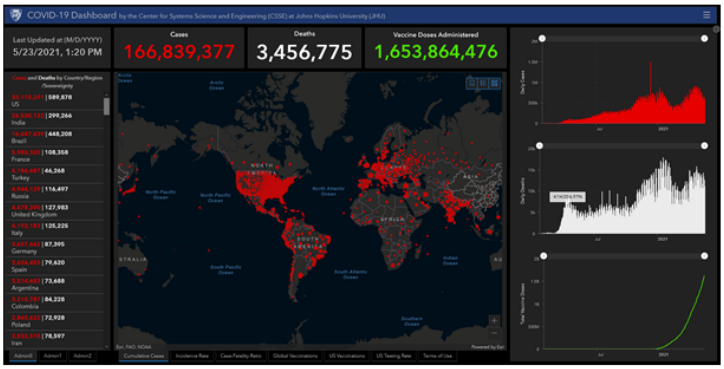
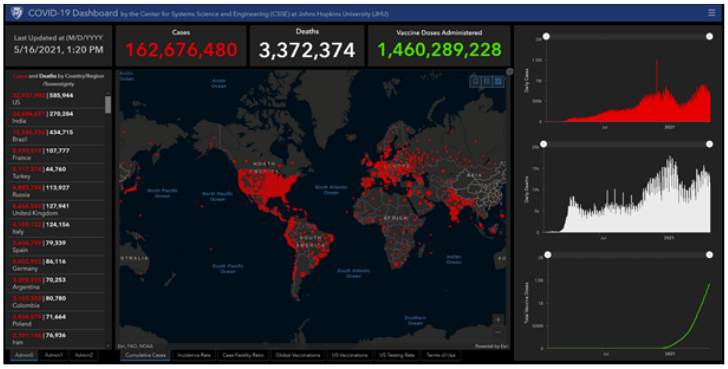
COVID-19 GLOBAL CASE AND MORTALITY RATES





Given that more than 3.4 million have lost their lives around the world, with 590,000 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 4.2 million. The rise in weekly fatalities of 84,000 was a bit better than the 93,000 of three weeks prior, but 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, 38.9% of all Americans are now fully vaccinated.

https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942367b48e9ecf6

Mr. Bullard concluded, "I don't think we're quite to that point yet, but it does seem like we're getting close." Meanwhile, Atlanta Fed President Raphael Bostic added, "We're going to have to be very nimble in terms of our monitoring of the economy and our policy responses."

Certainly, we understand that many are concerned about rising inflation, even as the historical evidence suggests that stocks have performed well, on average, whether the Consumer Price Index (CPI) is rising or falling,…

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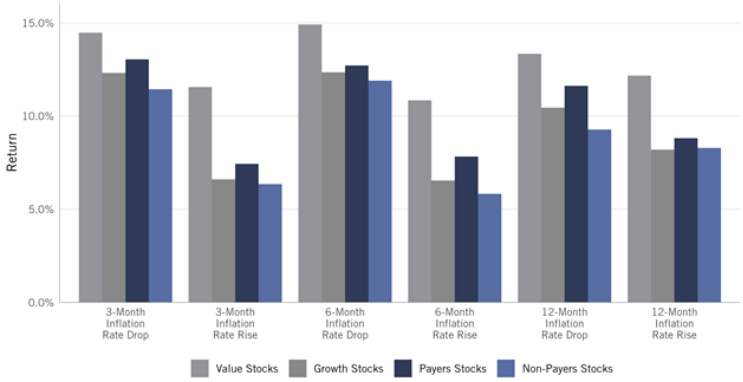
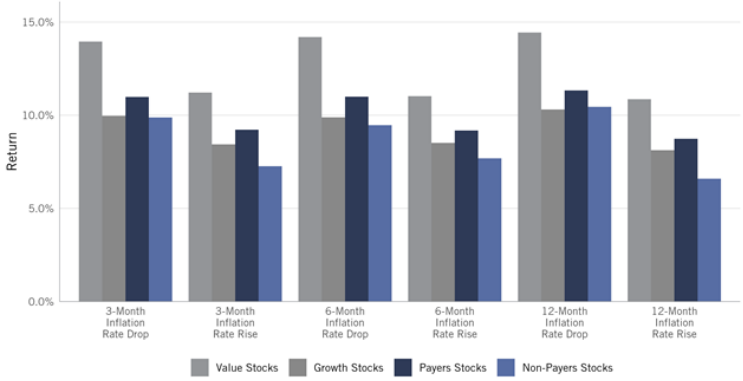
INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



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.

…and we crunched more numbers last week, after seeing a prominent *Wall Street Journal* story warning of the dangers of inflation topping 4% to see how Value and Growth stocks have performed when inflation is running at a rate greater than that level, noting that the increase in the CPI was 4.2% on a year-over-year basis in April.

STREETWISE | By James Mackintosh

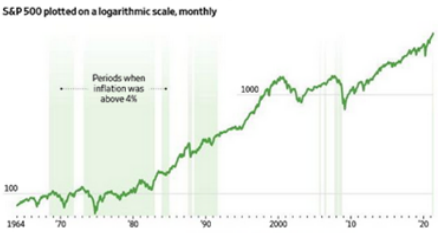
For Stock Investors, the Inflation Number That Really Counts Is Four

Three may be the magic number, but it is four that obsesses the market. Specifically, inflation rising above 4% last week proved a shock for inflation-sensitive assets, with bond yields jumping and stocks falling, growth stocks most of all.

It might sound like yet another bit of market mysticism, alongside "cup and handle" patterns in charts or the people who try to divine price movements from the stars. But there is more than just a solid history of the market freaking out when inflation passes 4%; it has

When inflation hits 4%, stocks have usually wobbled.

S&P 500 plotted on a logarithmic scale, monthly



The Federal Reserve is still of the mind that the inflation spike is transitory, but the 4.2% increase in the consumer price index for April 2021 led *The Wall Street Journal* to warn that a rise above 4% is worrisome for stocks, given that such an event occurred before the Crash of '87 and the Great Financial Crisis. Of course, returns data since 1957 (the inception of the S&P 500) and 1927 (the Ibbotson data series start) suggest that equities (especially Value) have performed well, on average, over the ensuing 3, 6 and 12 months whether the inflation gauge is above or below 4%.

Inflation Rate >= 4.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.2%	2.3%	7.1%	5.5%	15.4%	12.1%
Geometric Average	2.6%	1.6%	5.7%	4.0%	12.9%	9.3%
Median	3.5%	2.5%	6.8%	5.0%	17.2%	13.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-36.0%	-34.9%	-54.2%	-41.7%	-52.2%	-48.0%
Count	229	229	229	229	229	229

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate >= 4.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	2.5%	1.6%	6.2%	4.2%	15.5%	11.1%
Geometric Average	1.8%	1.0%	4.4%	2.8%	12.2%	8.5%
Median	3.0%	1.7%	5.6%	4.0%	16.0%	11.5%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-36.0%	-34.9%	-54.2%	-41.7%	-55.8%	-48.0%
Count	312	312	312	312	312	312

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Inflation Rate < 4.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.0%	3.2%	7.9%	6.1%	15.7%	11.9%
Geometric Average	3.6%	2.8%	7.1%	5.3%	14.1%	10.3%
Median	4.2%	3.7%	8.2%	6.5%	17.1%	12.6%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-26.7%	-33.6%	-32.2%	-38.8%	-36.5%
Count	537	537	534	534	528	528

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate < 4.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.8%	3.6%	9.0%	6.8%	17.4%	12.9%
Geometric Average	3.6%	2.9%	7.1%	5.5%	13.1%	9.9%
Median	4.3%	4.1%	8.6%	6.9%	17.0%	13.4%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	811	811	808	808	802	802

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Again, while anything is possible and we must always be braced for downside, we see no reason for those who share our multi-year time horizon to fear elevated inflation. Further, we think remarks last week from Federal Reserve Vice Chair for Supervision Randal K. Quarles seem reasonable: "We do expect to see inflationary pressures over the course, probably, of the next year — certainly over the coming months. Our best analysis is that those pressures will be temporary, even if significant. But if they turn out not to be, we do have the ability to respond to them."

That ability of the Fed Mr. Quarles referenced would include higher interest rates, so we also are buoyed by data on equity performance and rising government bond yields. That does not mean that stocks are assured of appreciating, but the figures argue that we would much rather own equities (particularly Value) versus fixed income choices if Treasury yields are moving up.

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.

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Understanding that volatility is always part of the investment equation,…

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

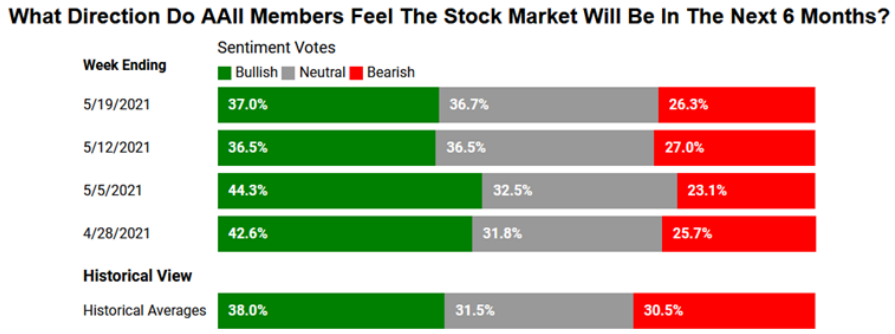
	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.5%
Dividend Paying Stocks	10.7%	18.1%
Non-Dividend Paying Stocks	9.2%	29.4%
Long-Term Corporate Bonds	6.0%	7.6%
Long-Term Gov't Bonds	5.4%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	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

…we remain optimistic on the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, while we are pleased, from a contrarian standpoint, to see that not everyone shares our enthusiasm,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – OPTIMISM BELOW NORMAL



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	901	0.27%	0.23%	1.27%	1.14%	3.69%	3.30%	7.20%	6.44%
ABOVE	8.1	62.9	861	0.16%	0.15%	0.49%	0.40%	1.85%	1.60%	4.39%	3.91%
Ten Groupings of 1762 Data Points											
1	-54.0	-15.0	181	0.56%	0.49%	2.16%	1.92%	5.90%	5.34%	10.68%	9.45%
2	-14.9	-7.3	172	0.36%	0.33%	0.96%	0.84%	3.89%	3.53%	7.20%	6.42%
3	-7.3	-1.4	176	0.30%	0.27%	1.56%	1.46%	3.41%	3.02%	7.32%	6.68%
4	-1.4	3.0	181	0.09%	0.05%	1.03%	0.94%	2.87%	2.51%	6.25%	5.72%
5	3.0	8.0	191	0.04%	0.02%	0.65%	0.56%	2.46%	2.21%	4.66%	4.14%
6	8.1	12.2	156	0.09%	0.07%	0.34%	0.22%	1.52%	1.28%	4.73%	4.23%
7	12.2	16.6	176	0.21%	0.19%	0.70%	0.60%	2.44%	2.19%	5.04%	4.60%
8	16.6	22.0	181	0.16%	0.14%	0.70%	0.62%	2.03%	1.76%	5.53%	5.11%
9	22.0	29.2	171	0.06%	0.04%	0.35%	0.26%	1.82%	1.55%	4.02%	3.45%
10	29.2	62.9	177	0.29%	0.28%	0.34%	0.27%	1.41%	1.18%	2.63%	2.19%

From 07.31.87 through 5.20.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, and the latest AAII Sentiment Survey released on Wednesday evening, May 19, 2021, saw the number of Bulls inch up a tad, even as the tally remains below normal and the Bull-Bear Spread of 10.7% is about average.

…with more folks feeling fearful than greedy these days,…

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

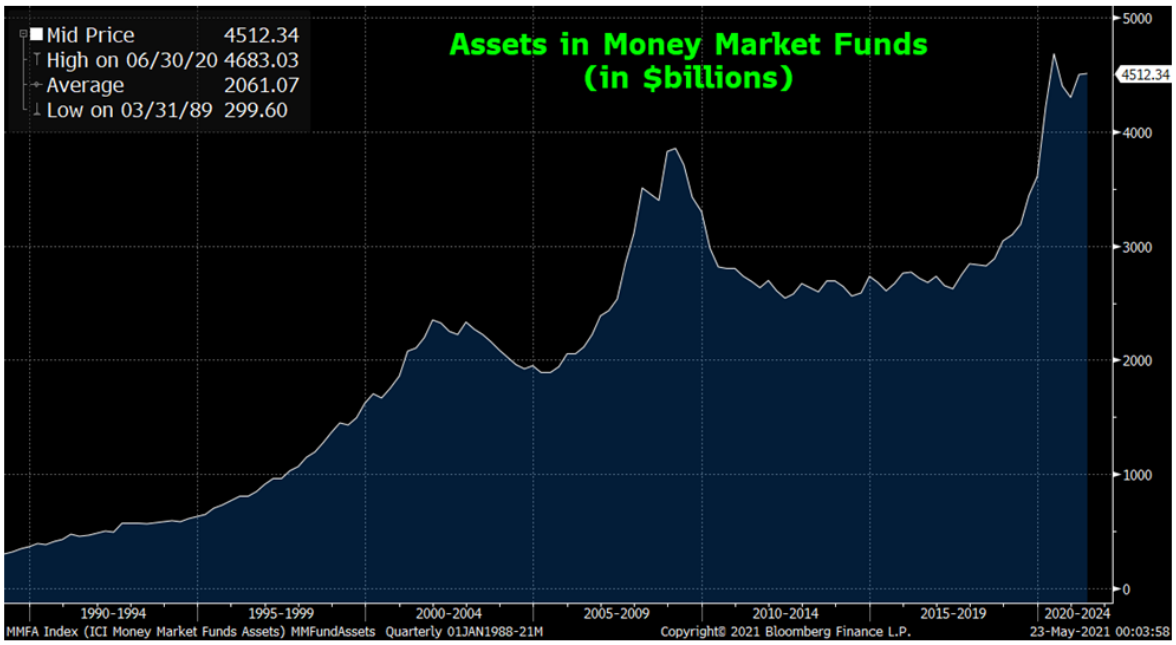
No doubt, there is still plenty of frothiness in richly valued (or impossible to value) areas of the equity market, but the *CNNMoney* Fear & Greed Index is now pessimistic, with overall market enthusiasm per this gauge of seven indicators held back by Extreme Fear readings for Stock Price Strength,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

…and near-record amounts of cash hiding out in money market funds,…

THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have never been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.

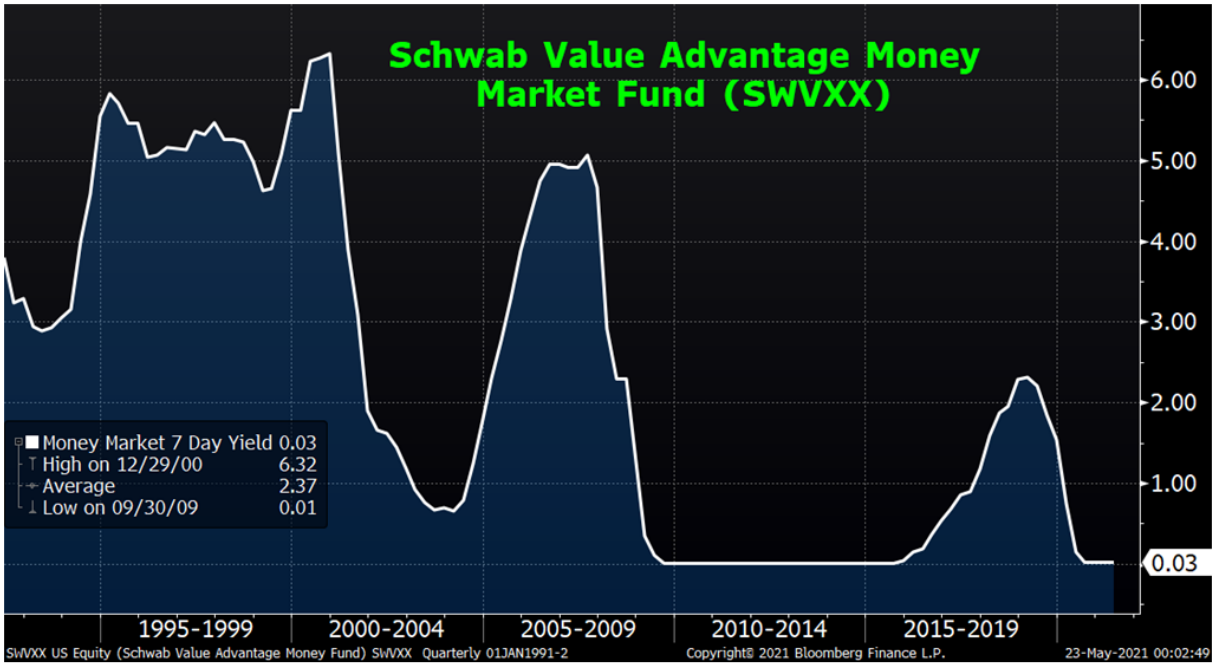


…most of which boast a yield whereby money might double in 2,300 years or so.

THE PRUDENT SPECULATOR

MONEY MARKET FUND YIELDS OVER TIME

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.03% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2007 and 2000.

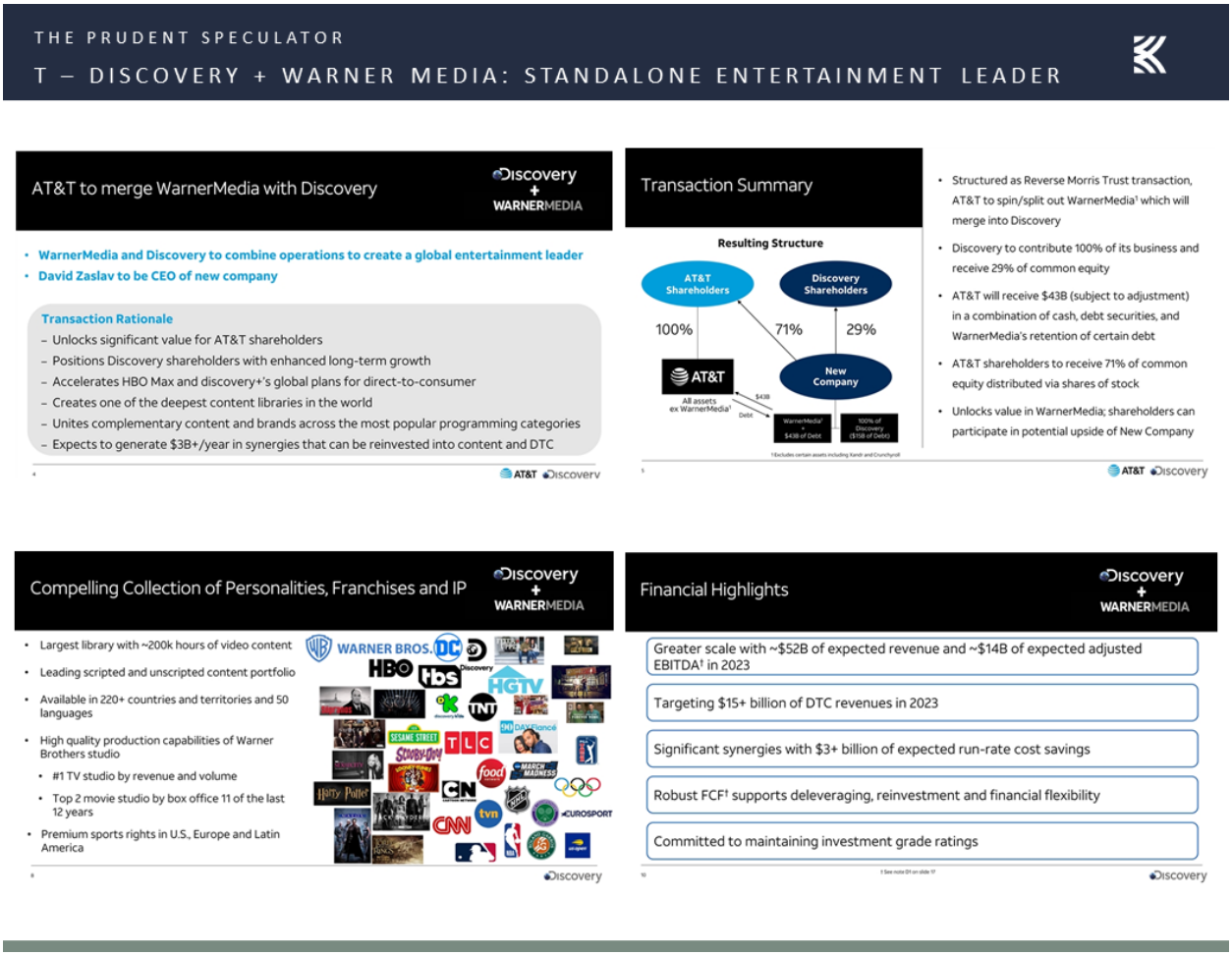


Stock Updates

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

In a transaction that for an hour or two was viewed very favorably following its announcement this past Monday morning, only to quickly be panned by fickle investors, **AT&T** (T – $30.01) unveiled a monumental transaction to unite with television entertainment provider Discovery Inc. in a deal that the telecommunications behemoth states will "unlock value in its media assets and to better position the media business to take advantage of the attractive DTC trends in the industry." The press release indicated that the company will "combine WarnerMedia's premium entertainment, sports and news assets with Discovery's leading nonfiction and international entertainment and sports businesses to create a premier, standalone global entertainment company."

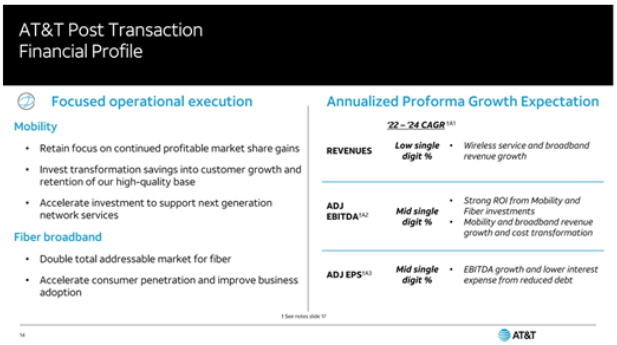
The new entity will be owned 71% by AT&T shareholders and 29% by Discovery shareholders, while it will distribute to the old AT&T a one-time dividend in the amount $43 billion. AT&T has stated that it intends to use the $43 billion to further reduce its debt balance, ending its reign as the most indebted corporation in America after it purchased Time Warner in 2018. Discovery CEO David Zaslav is slated to lead the combined firms, which will house a portfolio of prime brands including HBO, Warner Bros., Discovery, DC Comics, CNN, Cartoon Network, HGTV, Food Network, the Turner Networks, TNT, TBS, Eurosport, Magnolia, TLC, Animal Planet, ID and others.



AT&T CEO John Stankey explained, "This transaction brings together 2 entertainment leaders with complementary content strengths and positions the new company to be one of the leading global direct-to-consumer streaming platforms. The deal also provides AT&T with additional flexibility to invest in what I believe is an equally compelling opportunity, becoming the preeminent U.S. broadband provider. So, I know the question you're asking is, why are we doing this now? The fact of the matter is direct-to-consumer is a global opportunity that is rapidly evolving and the pace of that evolution is accelerating. To compete and win, you must build global scale. And simply put, to invest the kind of capital we need, we need the instruments of capital necessary to do so. This is a move to align each of our businesses with the right asset and capital base for their respective future success. In other words, this move unlocks the value

embedded in our media business and gives it the tools, talent, content and capital to ensure its position as a world-class player. The hard work and consistent execution of the WarnerMedia team has cemented a domestic U.S. D2C foothold and is poised for continued growth and rapid international expansion. WarnerMedia and Discovery together solidifies the joint entity's leading position in the global direct-to-consumer race. Together, WarnerMedia and Discovery will have a combined content spend that exceeds most industry peers. In addition, we're uniting the most awarded leader in scripted entertainment, animation, news and sports in WarnerMedia with a leader in real-life entertainment in Discovery. By combining these two, it creates one of the most compelling global content portfolios in entertainment. This also creates substantial value opportunity for AT&T shareholders. Our shareholders will retain their stake in our leading communications company that comes with an attractive dividend, plus they'll retain a 71% stake in the new entity. There is now an opportunity for parallel growth in both telecommunications and media, which many would argue that our stock was not effectively reflecting. By doing this deal now, WarnerMedia will be in a position to self-fund its growth, and AT&T will have the flexibility to invest and address the growing long-term demand for connectivity and be the leading best capitalized broadband connectivity provider in the country through 5G and fiber."

All that sounds reasonably good, especially as major Discovery shareholder John Malone is very much on board with the union, as is activist investor and large AT&T shareholder Elliott Management. Still, we know that T shares had been enjoying a nice run on the strength of market interest for its HBO Max streaming service, with an enthusiastic reaction last month to its Q1 financial release in which the company reported 2.7 million total domestic HBO Max and HBO subscriber net adds; total domestic subscribers of 44.2 million and nearly 64 million globally. While we have long thought that the sum of the parts for AT&T was worth more than the whole, we recognize that the break-up of the company is likely leading to a significant turnover in the shareholder base. After all, many liked the diversification provided by leading telecom and media businesses, while others have viewed T as a utility-like stock with a very attractive dividend payout. Alas, management has guided that the dividend for the post-transaction T shares will represent approximately 40% of the $20 billion free cash flow anticipated for the remaining company, putting the new payout around $1.12, and, assuming no ongoing dividend from the new media entity, dropping the payout for current shareholders from more than 6.5% to less than 4.0%.



Mr. Malone issued a statement, "After over 30 years of being involved in developing Discovery as a global information and entertainment company, the opportunity to combine with WarnerMedia to create the ultimate consumer offering in its space is compelling. The industrial logic of this investment grade, synergistic combination, under the leadership of David Zaslav, is appealing. I am delighted to fully support this transaction, without asking for or receiving a premium for my high vote shares. I believe we are creating real value for shareholders and a legacy investment for my grandkids."

Certainly, there are plenty of question about the media business, especially as the paint was barely dry on AT&T's integration of the very-expensive purchase of Time Warner back in 2018. However, it would seem from what we have read thus far that the actual content producers at WarnerMedia might like the new leadership and there are quite a few synergies available as a true entertainment giant will be created. And, from the T perspective, we like that debt will be pared considerably, allowing increased financial flexibility to invest in and grow its mobile and fixed broadband businesses, especially as the 5G opportunity comes to fruition. So, with an updated Target Price for the combined AT&T (the deal still needs regulatory approval and is not scheduled to close until mid-2022) of $40, we are content to hold the T shares that we own, though additional near-term price weakness might compel us to add to our stake in portfolios that have a small current position.

We have hiked our Target Price again for **Seagate Technology** (STX – $93.92). We have a long way to go until STX reports fiscal Q4 results at the end of July and shares have been on a tear since last year, boosted by cloud spending and, more recently, the possibility that new cryptocurrencies could leverage massive storage arrays to cut down on processing time and improve security. Specifically, the cryptocurrency Chia uses 100GB clusters on hard disks called 'plots' to improve the blockchain's security and minimize electricity usage. This has caused a surge in demand for STX drives, although we admit that the sustainability of the demand is uncertain and should Chia ever fail, we would expect a flood of drives to hit the market.

We also note that Seagate has an ownership stake in Ripple. As the company said back in 2018, "A few years ago, we made an investment in Ripple, a company driving technology innovation for distributed ledger and blockchain use cases. We believe the proliferation of these companies will create tremendous amounts of data, require high levels of data integrity and will alleviate friction in global financial operations and other important use cases that require the transfer of value with improved agility and transparency. While recent attention is on the valuation of the XRP crypto assets, we believe Ripple has a real and robust blockchain technology platform, a defined and validated use case for XRP and a leading management team."

Management has not said much about Ripple in the last couple of years, but there was a question on the subject on the latest earnings conference call, "I believe you still maintain your stake in Ripple, it has over the last few years. And that's appreciated 5x since you last reported. So, I guess, a, do you still maintain the stake there? And then secondarily, are there ways to monetize that stake today?"

CEO Dave Mosley responded, "Yeah. We won't talk about the latter part. But yes, we do maintain a stake. These are, like I said, vibrant segments that we've been watching for quite some time. We have a fair amount of people that are — because it's all about data flow, and in the case of the recent trends, a lot of it's about data storage in particular. So, these are things that we watch and determine how we make investments, not only in external investments that we might make, but also internally what kind of technologies we're developing. So, we are maintaining a stake."

While the cryptocurrency exposure is a bonus, we continue to like Seagate and believe that the wide array of applications for hard disk and hybrid drives will drive EPS for the foreseeable future. Analysts expect STX to grow EPS from the $5 range in 2020 to more than $7 by 2023, which results in a 2023 P/E under 14, while the company continues to generate free cash flow and buy back shares. We took some STX dollars off the table earlier this year for portfolios with larger positions sizes and are still comfortable with our current full position sizes of STX in our broadly diversified portfolios. Our upgraded Target Price for STX is $108.

Discount supermarket and superstore chain **Walmart** (WMT – $141.75) reported an impressive fiscal Q1 2022 Tuesday that included adjusted EPS of $1.69, more than 38% better than the consensus analyst estimate of $1.22. Revenue came in at $138.3 billion, outpacing an expected $132 billion. Walmart U.S. comparative sales were stronger than expected, up 6% in the quarter and up 16% on a two-year stack. Sam's Club grew comp sales nearly 11%, excluding fuel and tobacco, and International sales growth was strong, increasing more than 5% in constant

currency with strength in India, Canada and China. Globally, ecommerce sales growth remains robust at more than 40%.

CEO Doug McMillon commented, “This was a strong quarter. Every segment performed well, and we’re encouraged by traffic and grocery market share trends. Our optimism is higher than it was at the beginning of the year. In the U.S., customers clearly want to get out and shop. We have a strong position as our store environment improves and eCommerce continues to grow. Stimulus in the U.S. had an impact, and the second half has more uncertainty than a typical year. We anticipate continued pent-up demand throughout 2021. Our results reflect the continued hard work and commitment our associates have shown throughout the pandemic — serving others and helping provide vaccines — and we’re grateful to them.”

CFO Brett Biggs added, “Our typical practice is to not update guidance until the second quarter release, but we’re in an unusual period where Q1 stimulus led to meaningful sales and profit tailwinds that weren’t contemplated when we provided guidance in February. The guidance discussed here assumes that COVID conditions continue to improve and there won’t be significant additional government stimulus packages for the remainder of the year. We now anticipate higher full-year enterprise sales growth than originally projected, primarily due to the strong Q1 performance and our initial forecast for Q2. Excluding the impact of divestitures, consolidated net sales growth is now expected to be up low to mid-single digits versus our original guidance of a low single-digit increase. We’re also raising full-year guidance for operating income and EPS to reflect the strong performance in Q1 and our expectation for a potentially better second quarter than previously expected.”

There is no doubt that competition is fierce within retail, but we continue to be impressed by Walmart’s transformation and execution to build a customer-centric seamless omni-channel ecosystem. This includes integration of its ecommerce, grocery and general merchandising businesses, as well as the continued rollout of various ways for guests to shop. WMT continues its brisk-paced expansion of same-day delivery locations and has launched Walmart+ to compete with Amazon Prime. Despite additional costs required to adapt to COVID-19, we note that the company has increased its dividend for the 48th consecutive year (yield is 1.6%) and approved a new $20 billion share repurchase program (the company bought back $2.8 billion worth of stock in Q1…greater than the total amount spent last year on buybacks). We continue to think investments in Flipkart and JD.com, along with its foray into service sectors like Health Care, FinTech and others, lengthen the retailer’s runway for growth and diversify revenue. We also like that WMT continues to generate strong free cash flow. With the continued operational momentum, we have boosted our Target Price for WMT to $172.

General merchandise discount store chain **Target** (TGT – $225.09) announced that it earned $3.69 per share in Q1, blowing away the $2.24 estimate, as sales grew 23% to $23.9 billion. Same-day services (Order Pickup, Drive Up and Shipt) grew more than 90%, led by growth in Drive Up of 123%. Unlike with some other retailers, investors greeted the stellar report with a flurry of buy orders, sending TGT shares up nearly 14% for the full week.

CEO Brian Cornell commented on the results, “Our performance in the first quarter was outstanding on every measure, and showcased the power of putting our stores at the center of our

strategy. Store comp sales grew 18.0 percent in the quarter, even as they also fulfilled more than three quarters of Target's digital sales – including more than 90-percent growth of our same-day services. Importantly, market-share gains of more than $1 billion in the first quarter, on top of $1 billion in share gains a year ago, demonstrate Target's continued relevance with our guests, even as they have many more shopping options compared with a year ago."

With more color on the retailer's success and expansion plans, he added, "Beyond activity in existing stores, we're expanding our new store opening plans to more than 30 additional locations across the country this year, as we continue to find compelling opportunities in urban and dense suburban markets and on our near-college campuses. In recent years, these custom formats have typically been less than 50,000 square feet. However, given local real estate conditions in dense suburban markets, we're also finding compelling opportunities to open somewhat bigger stores, between 50,000 and 100,000 square feet, which weren't available in the past. As a group, these new stores are generating higher-than-average sales productivity, above average gross margin rates and strong financial returns, and we see a very long runway to open more of them over time. And finally, after store comp growth of 18% in the first quarter, driven almost entirely by traffic, we're confident that we're already benefiting from a differentiated service model in our stores. But that's a lead we can't take for granted. So, we're continually looking for ways to get even better. So, this year, our store teams are rolling out an enhanced service model, focused on consistency of every interaction to ensure that our guests will always feel welcomed and appreciated. And if they need help, there will be team members who can find solutions to enhance their experience. This new engagement model is strongly connected to our company purpose, culture and values. And we're supporting it with enhanced training and tools across the chain. It's designed not to be a one-and-done effort, but a sustainable model that's integrated with our operational goals, not something separate that's added on to everyday tasks."

We appreciate how Target's investment in recent years allows the company to use its proximity (more than 1,900 stores within 10 miles of the vast majority of U.S. consumers) to elevate the convenience it is able to offer. While we are mindful that the current growth rates (a product of fiscal stimulus and exuberance around the economy reopening) will likely begin to fade, we think Target remains poised to benefit from discretionary purchases as GDP forecasts heat up for 2021. Management repurchased 6.1 million shares in the quarter for $1.2 billion at an average price of $190.77 and has said that it will be recommending a robust increase in the quarterly dividend to the board later this year. For now, the yield is 1.2% and our Target Price has been hiked to $243.

Shares of **Lowe's Cos** (LOW – $192.47) didn't react the way some might have thought they should following its Q1 earnings release, even as there was no doubt that the home improvement retailer's latest results were quite strong. Same-store-sales growth of 25.9% during the period was well ahead of the consensus forecast of 20.5%. Revenue for the quarter of $24.4 billion beat estimates of $23.9 billion and adjusted EPS was $3.21, crushing by 23% the consensus analyst forecast.

CEO Marvin R. Ellison commented, "Our outstanding performance continued this quarter, as we delivered strong sales growth and operating margin expansion. We delivered over 30% growth in Pro, over 18% growth in all 15 U.S. regions, and growth in Canada that outpaced the U.S. I

would like to thank our front-line associates for their hard work and commitment to delivering exceptional customer service. Looking forward, I remain confident in our ability to accelerate our market share gains while driving further improvement in operating margin."

Lowe's announced that during the quarter, it repurchased 16.8 million shares for $3.1 billion and it paid $440 million in dividends. Management said that sales momentum continued into May. The company is currently tracking ahead of the Robust Market scenario provided at its December 9, 2020 Investor Update, which assumed fiscal 2021 sales of $86 billion. A supportive macroeconomic backdrop, a strong housing market and government stimulus has the company confident in its ability to deliver strong results for the fiscal year, including continued market share gains and the achievement of a 12% operating margin. Additionally, LOW continues to plan for $9 billion in share repurchases and $2 billion in capital expenditures this fiscal year.

We continue to be pleased with LOW's improved execution and margin expansion, and believe it has more opportunities on which to capitalize. It is worth noting that its shares still trade at a discount to the industry gold standard Home Depot. With continued operational momentum and some progress in winning new market share with professional housing related services, we wouldn't be surprised to see LOW receive more of a premium multiple as it benefits on the top and bottom line from the continued surge in domestic home sales and the home improvement wave. Our Target Price for LOW has been improved to $229.

Department store chain **Kohl's** (KSS – $54.07) announced last week that it earned $1.05 in fiscal Q1 2022 on $3.66 billion of sales. The bottom-line result was vastly better than the $0.02 loss analysts had expected, while sales were ahead of the $3.50 billion estimate. Shares plunged 10% despite the Q1 beat due to cautious comments from CFO Jill Timm on supply chain and inflation pressures. Still, management significantly hiked its guidance with Kohl's now expecting fiscal 2022 earnings per share between $3.80 and $4.20 on revenue growth in the "mid-to-high teens" compared to 2020.

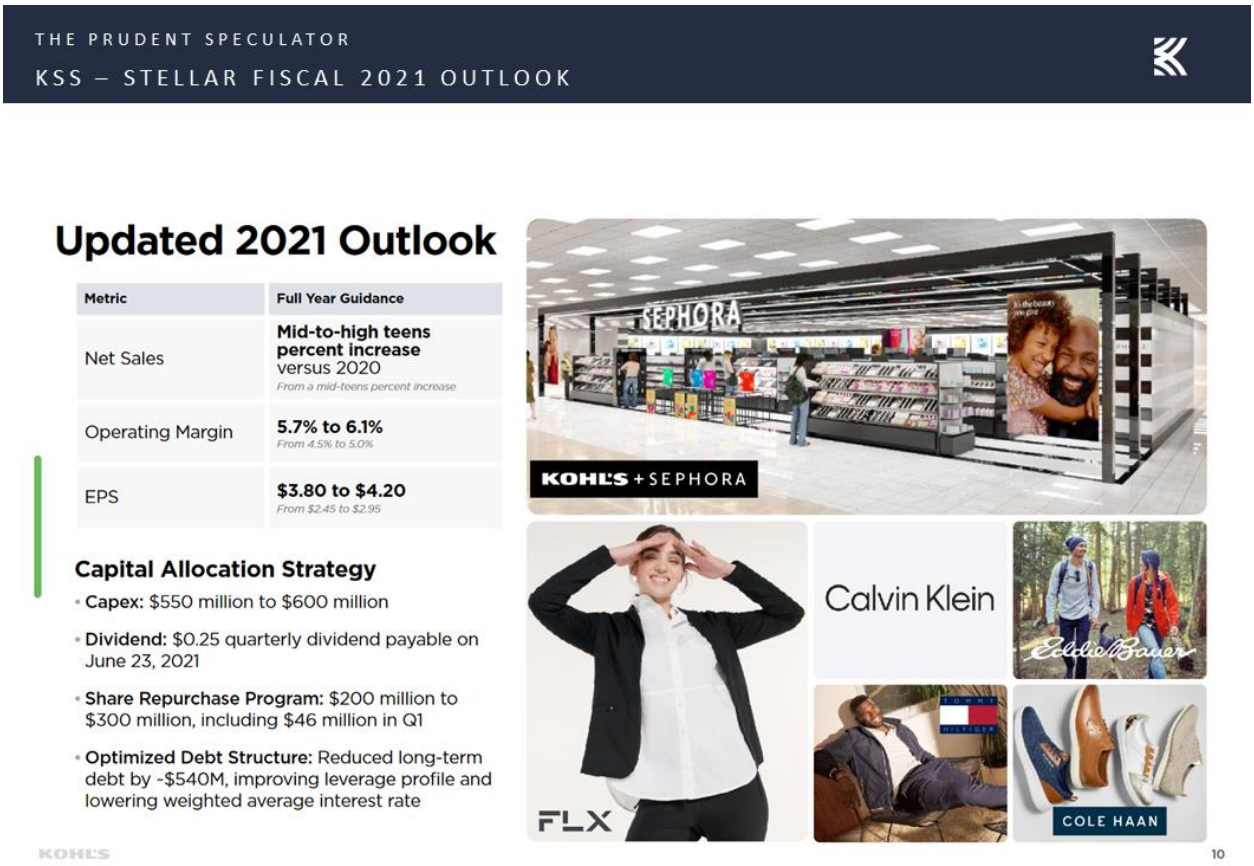
CEO Michelle Gass commented, "Adjusted earnings per share were $1.05 driven by strong net sales growth of 69%, significant gross margin expansion and disciplined expense management. We also further strengthened our financial position, reducing our overall debt and improving our leverage profile, and we resumed returning capital to shareholders. We are making significant progress on our vision of becoming the most trusted retailer of choice for the active and casual lifestyle. Since launching our strategy last October, we have shown strong sequential improvement in our performance and have announced several important new strategic partnerships that will accelerate our momentum. We remain firmly on track to achieving our 2023 strategic goals and we'll take a big step forward in our pursuit this year."

Ms. Gass concluded, "We are pleased to see our business continue to build momentum. And with the impact we are seeing from our initiatives, I am even more optimistic about what the future presents. Much of our strategic work is still underway with significant benefits ahead of us. We continue to believe we are set up for a multiyear improvement in sales and profits and remain firmly on track with our 2023 strategic goals. In closing, our strong results and promising outlook wouldn't be possible without the incredible efforts of our associates across the country. Your ongoing commitment to Kohl's, our strategy and our customers has further differentiated

and strengthened our positioning in the marketplace and has paved the way for an exciting and bright future."

Ms. Timm added, "We are also monitoring cost headwinds related to industry-wide supply chain disruptions. We have navigated the challenges very well to date, but acknowledge that there still remains a lot of uncertainty as we look to the balance of the year… As we look ahead, we expect wage inflation to remain a headwind. However, we will continue to drive efficiency through increased store productivity and lower marketing and technology spend… As we look ahead, we expect wage inflation to remain a headwind. However, we will continue to drive efficiency through increased store productivity and lower marketing and technology spend."

Ms. Timm continued, "We are off to a very strong start to the year. And based on our Q1 results, we are raising our full year outlook. That said, we are approaching our updated financial outlook prudently. It's still early in the year, and there remains uncertainty around how the recovery unfolds, duration of the stimulus tailwinds for the retail industry and supply chain headwinds."



As we noted earlier in this *Market Commentary*, we don't think inflation at the projected levels should cause much consternation. However the bigger impact to Kohl's could be related to supply chain headwinds, especially if they stiffen more than the management team is able to

offset. While it may disappoint short-term investors, we think Ms. Gass and Co. are appropriately focused on 2023 and beyond, having done an exceptional job weathering the pandemic. We believe the government's stimulus efforts helped KSS later in the recovery process, but the company's strong balance sheet carried it through the early days where many other retailers were forced into significant hardship or bankruptcy. We continue to like that still KSS boasts one of the strongest balance sheets of its peer group, even if the debt level rose last year, and we are pleased to again collect a dividend ($0.25 per share per quarter; a 1.9% yield). Our Target Price for KSS has been lifted to $72.

Despite reporting a blowout fiscal Q1, shares of **Foot Locker** (FL – $60.87) fell almost 6% last week. The footwear and apparel retailer turned in adjusted EPS of $1.96, more than 80% higher than the consensus analyst estimate of $1.08. Revenue for the period was $2.15 billion, almost 14% better than the expected $1.89 billion. Comparable store sales during the quarter were up 80.3% (versus -42.8% a year ago and the +61.9% expected for the quarter). By region, all U.S. store banners had same-store-sales growth of 90%+, while Europe increased in the high-30% range, despite only being open on average for 39% of operating days in the quarter. Management also announced that it would convert approximately a third of its Footaction stores into other existing brands over the course of a year and would close the remaining stores.

CEO Richard Johnson elaborated, "I am extremely pleased with the strength of our performance in the first quarter, compared not only to last year's heavily COVID impacted first quarter, but also relative to the first quarter of 2019. Against the ongoing challenges of pandemic-related store closures in Europe and Canada and U.S. ports congestion, our top and bottom-line results were nothing short of exemplary. Our merchandise offering resonated very well with our customers, driving strength in our stores and continued momentum in our digital business. With strong product tailwinds, we remain optimistic about our category and our ability to drive long-term growth, profitability and shareholder value."

CFO Andrew Page added, "The freshness of our inventory, coupled with robust demand across our assortment, resulted in significantly less promotional activity during the first quarter, driving gross margin expansion and improved inventory turns. At the same time, we continued to exercise discipline with expense management while strategically investing in our business. Importantly, the underlying health of our business and financial position are strong, enabling us to continue advancing our strategic initiatives."

While shares of Foot Locker are up 50% this year, they are only trading with a NTM earnings multiple of 12, and we believe the company has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think that longer term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. Our Target Price for FL has run ahead to $78.

Despite turning in terrific quarterly results on Friday and hiking its full-year forecasts, shares of **Deere & Co.** (DE – $359.75) fell more than 6% last week. For fiscal Q2, the agricultural equipment titan reported revenue of $12.1 billion, versus the consensus analyst estimate of $10.34 billion, and adjusted EPS of $5.68, more than 26% greater than the average forecast of $4.48. During Q2, Deere saw revenue growth across segments on increased shipment volumes, positive price realization and material foreign currency tailwinds. Due in part to the impact of the pandemic, global agricultural equipment inventory is reported to be at historic lows and fleet ages are estimated to be at the highest they have been in two decades.

"With another quarter of solid performance, John Deere closed out the first half of the year on a highly encouraging note," explained CEO John C. May. "Our results received support across our entire business lineup, reflecting healthy worldwide markets for farm and construction equipment. Our smart industrial operating strategy is continuing to have a significant impact on performance while also helping customers do their jobs in a more profitable and sustainable manner."

Mr. May added, "While the company is clearly performing at a high level, Deere expects to see increased supply-chain pressures through the balance of the year. We are working closely with key suppliers to secure the parts and components that our customers need to deliver essential food production and infrastructure. Despite these challenges, Deere is on track for a strong year and we believe is well-positioned to unlock greater value for our customers and other stakeholders in the future." The company announced that it was raising its full-year net-income guidance from a range of $4.6 billion to $5 billion, to a range of $5.3 billion to $5.7 billion.

With possibly the strongest brand in agriculture, Deere continues to operate at a very high level. We think the firm will continue to benefit from a sustainable equipment replacement cycle and precision ag as technology advancements support and drive pricing. Additionally, the company should see gains in aftermarket as retrofitting expands. Further, given the diversification of its construction products, a strong appetite for U.S. infrastructure spending should provide a boost in the coming years. Our Target Price on DE shares has been elevated to $420.

Cisco Systems (CSCO – $61.43) earned $0.83 per share in fiscal Q3 2021 (vs. $0.82 est.). The communications equipment firm had total revenue of $12.8 billion, versus the $12.6 billion estimate. Shares skidded some 6% in after-hours trading following the announcement on Wednesday, as softer-than-expected guidance overshadowed a good Q3, but eked out a small gain in regular trading on Thursday. Revenue in Q4 increased 7% year-over-year and 81% of the company's software revenue is on subscription terms, up from 76% last quarter. Product order growth grew 10%, which CSCO says is the strongest in nearly a decade.

CEO Chuck Robbins added, "We saw broad-based demand across the business, led by our biggest growth opportunities: hybrid work, digital transformation, cloud and continued strong uptake of our subscription-based offerings. We're also seeing early momentum in the ramping of key technology cycles that are long-term growth drivers for our business, such as 5G, 400-gig and Edge. The next phase of the recovery and the future of work will be heavily reliant on our technology. Cisco's end-to-end portfolio will serve as the foundation for next-generation infrastructure solutions as well as cloud-enabled delivery models and innovation, allowing our

customers to move with even greater speed and agility. This will require a significant investment cycle and reinforces the strength of our strategy while driving greater opportunity to create a world that is more connected, inclusive and secure. We remain focused on accelerating innovation while simplifying the adoption of our offerings with network-wide automation, analytics and flexible as a service consumption models, all aimed at improving our customers' network performance capabilities and security, which we believe will drive tremendous long-term opportunities for us."

Q3 FY 2021 Highlights

- **Broad-based strength across business with product order growth of 10% y/y**
  - Return to growth y/y for Infrastructure Platforms, continued growth in WiFi6, Webscale, Security and Webex
  - Public Sector, Commercial, and Service Provider orders all growing double digits y/y, Enterprise continues to improve
- **Strong revenue growth of 7% y/y**
  - Extra week contributes ~3% of growth
- Seeing **early momentum** in the ramping of key technology cycles that are long-term growth drivers for our business such as **5G, 400G and edge**
- **Great progress on business model transformation**; achieved software revenue of $3.8B, +13% y/y, of which 81% is recurring
- **Double-digit growth y/y in Deferred Revenue and Remaining Performance Obligations (RPO)**
- Gross margin pressure driven by supply chain challenges

Mr. Robbins concluded, "We are experiencing the strongest demand in nearly a decade. We are also seeing similar component shortage supply issues as our peers. The good news, and this is reflected in our guidance, is that we are confident we will work through this as we have already put in place revised arrangements with several of our key suppliers. We believe these actions will enable us to optimize our access to critical components, including semiconductors and take care of our customers by fulfilling their demand as quickly as possible. Our strategy and commitment to leading with trust, innovation and choice, along with our continued focus and discipline are positioning us well for growth and profitability. As we accelerate the pace of innovation for our customers and partners, it's critical that we continue to support our people, our communities and our planet."

Cisco expects revenue growth between 6% and 8% year-over-year for Q4, which should result in adjusted EPS between $0.81 and $0.83. Analysts were expecting EPS between $0.82 and $0.91 with a mean of $0.85. In our view, IT spending will remain strong, and we believe CSCO should benefit as the world emerges from the pandemic. Unfortunately, Cisco is not immune to the pricing and supply chain challenges that are dragging on the industry recently, and the company thinks those headwinds will stick around at least through the end of this calendar year. Ultimately, we continue to hold CSCO and stomach the gyrations because we think the longer-term trajectory remains in the upward direction and expect the company's growth initiatives to pay off. With one quarter left, analysts do not expect CSCO's EPS to grow in 2021, but that trend should improve in fiscal 2022 and 2023. Cisco sports a forward P/E ratio near 16 and a 2.8% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been bumped up to $61.