Market Commentary Monday, June 7, 2021

June 7, 2021

EXECUTIVE SUMMARY

Newsletter Trades – 4 Purchases
Market Week – Solid Start to June
Labor Report – Lots of Jobs Created, but Less-than-Expected
ISM Numbers – Strong PMI & NMI
Econ Outlook – OECD Raises Global and U.S. Growth Forecasts
Corporate Profits – Estimates Continue to Rise
Taper Tantrum Lesson – Fed Tightening & Stock Returns
Interest Rates – 10-Year Yield has Soared…and So Have Equity Prices
Sentiment – Not a Ton of Enthusiasm for Stocks
Valuations – Stocks Still Reasonably Priced Given Interest Rate Levels
Stock News – Updates on HPE, NTAP, AVGO, SJM, TPR, ONB, ABT, MDT, MOS, NTR & NLOK

Market Review

A little housekeeping before this week's Holiday missive. As discussed in the June edition of *The Prudent Speculator*, we bought the following for TPS Portfolio on Friday, June 4:

407 **HollyFrontier** (HFC – $35.73) at $35.1699
971 **Takeda Pharmaceutical** (TAK – $16.72) at $16.69

We also added the following to our hypothetical portfolios:
43 shares of **Citigroup** (C – $79.49) to Millennium Portfolio at $76.69
531 shares of **Volkswagen AG** (VWAGY – $37.50) to PruFolio at $37.63

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While we realize that stock prices in the short run move in both directions, even as the long-term trend is decidedly higher,…

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	13.3%	26.0%
Growth Stocks	9.9%	21.4%
Dividend Paying Stocks	10.7%	18.1%
Non-Dividend Paying Stocks	9.3%	29.4%
Long-Term Corporate Bonds	6.0%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 04.30.21. 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

…the equity markets headed higher for the second straight week over the first four days of June, with the S&P 500 and Dow Jones Industrial Average both closing within a whisker of their all-time highs set on May 7.

FAVORABLE FIVE DAYS…WITH VALUE LEADING

Overall market volatility remained relatively subdued, even as the wild gyrations in "meme" stocks added to investor concerns about inflation and Federal Reserve actions, but equities had a solid first week of June.

Total Returns Matrix

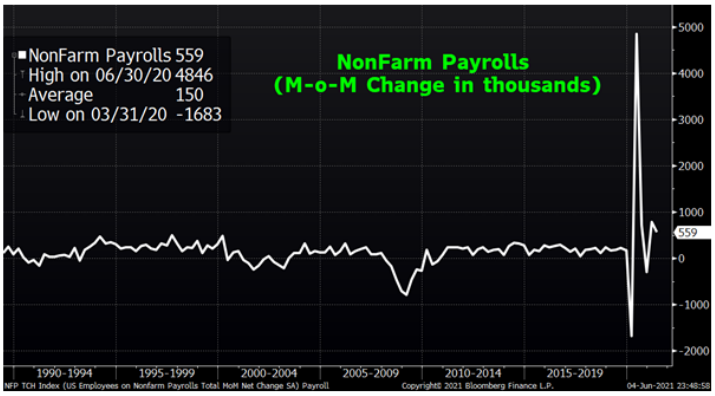
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Last 12 Months	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
0.07	-2.48	0.63	2.63	4.12	9.67	9.66	13.93	14.51	Bloomberg Barclays Global-Aggregate Bond
0.12	-2.17	-1.07	-1.56	0.16	4.10	8.99	16.72	16.76	Bloomberg Barclays US Aggregate Bond
0.69	14.55	32.83	37.74	34.92	91.76	43.51	49.93	119.27	Dow Jones Industrial Average
0.96	16.10	36.21	42.90	39.08	95.95	39.87	42.50	81.41	New York Stock Exchange Composite
0.29	6.47	23.59	28.99	39.42	98.31	74.01	80.39	167.34	Russell 3000 Growth
0.84	**19.98**	**42.11**	**50.57**	**41.16**	98.63	**39.93**	**43.05**	**80.91**	**Russell 3000 Value**
0.57	12.98	32.42	39.21	41.12	99.78	58.17	62.87	123.38	Russell 3000
0.85	20.02	43.04	53.94	45.66	116.30	53.60	58.43	107.89	S&P 500 Equal Weighted
0.64	13.35	30.59	36.12	38.08	92.90	56.43	62.86	121.92	S&P 500
0.35	8.54	23.94	29.21	38.03	93.96	66.34	74.52	153.70	S&P 500 Growth
0.95	**18.80**	**38.79**	**44.60**	**36.12**	88.72	**42.81**	**47.47**	**85.67**	**S&P 500 Value**
0.09	5.22	23.42	29.58	34.14	100.35	52.45	51.03	119.65	S&P 500 Pure Growth
1.81	**34.39**	**66.34**	**84.87**	**62.59**	148.34	**38.71**	**33.63**	**79.07**	**S&P 500 Pure Value**

As of 06.04.21. Source Kovitz using data from Bloomberg

No doubt, the big news for the week was Friday's all-important monthly labor report, which was viewed as disappointing, despite the creation of more than 500,000 jobs,…

THE PRUDENT SPECULATOR

BIG INCREASE IN JOBS, BUT WEAKER-THAN-EXPECTED



Economists were looking for a huge gain of 671,000 payrolls, so the increase of 559,000 in May was a disappointment, even as job openings have surged. The struggling leisure and hospitality sector accounted for more than half of the increase during the month, and businesses are having to raise wages in order to fill positions as early retirements, lack of child care, virus fears and Uncle Sam's largesse have kept many folks from returning to work.

…and a sizable drop in the unemployment rate, even as plenty of jobs are going wanting.

THE PRUDENT SPECULATOR

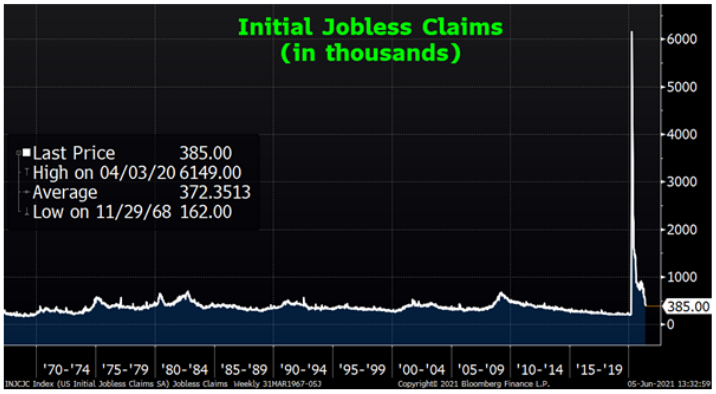
LOTS OF FOLKS OUT OF WORK…BUT LOYS OF JOBS AVAILABLE

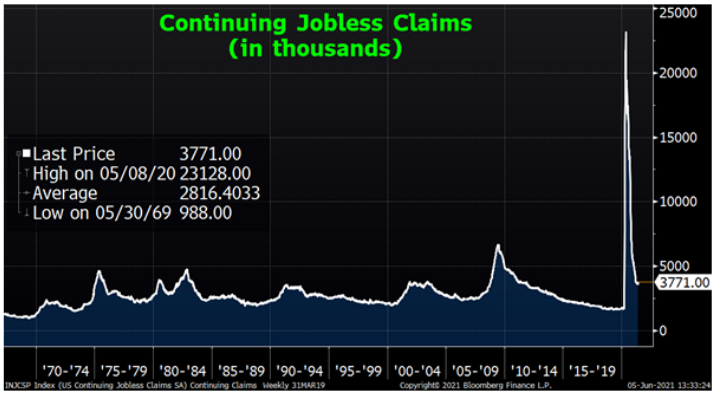
With a new round of government stimulus and millions of vaccinations helping the cause, the May jobless rate dropped to 5.8%. This seemingly good news was greeted with a yawn as many economists expected a better reading, even as 13 months ago, the unemployment rate hit a record 14.8%. Obviously, the labor situation has improved considerably, but record job openings have yet to translate into the much higher expected employment levels.

Certainly, the labor market is improving,…

THE PRUDENT SPECULATOR

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 385,000 for the period ended May 29, down 20,000 from the week prior. Continuing claims filed through state programs edged up to 3.77 million, still near a pandemic low, though there have been 83 million jobless applications filed over the last 63 weeks.

…but Friday's report was seemingly of the Goldilocks variety, as it was not too strong to compel the Federal Reserve to begin talking about talking about tightening monetary policy, yet it was healthy enough for folks to think that projections for robust domestic GDP growth will not be derailed.

FED: HUGE REBOUND IN '21 AND NEAR-ZERO INTEREST RATES THROUGH '23

The Fed dramatically increased its consensus projection for a massive U.S. economic recovery in 2021, taking its GDP forecast for real (inflation-adjusted) growth sharply higher to 6.5%, up from a 4.2% estimate just three months ago. And, with forecasts for growth in 2022 and 2023 remaining relatively modest, Jerome H. Powell & Co. will likely leave the Fed Funds rate near zero through 2023.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2021

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
December projection	4.2	3.2	2.4	1.8	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.0	0.5–5.5	2.5–4.0	2.0–3.5	1.6–2.2
Unemployment rate	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
December projection	5.0	4.2	3.7	4.1	4.7–5.4	3.8–4.6	3.5–4.3	3.9–4.3	4.0–6.8	3.5–5.8	3.3–5.0	3.5–4.5
PCE inflation	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
December projection	1.8	1.9	2.0	2.0	1.7–1.9	1.8–2.0	1.9–2.1	2.0	1.2–2.3	1.5–2.2	1.7–2.2	2.0
Core PCE inflation[4]	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
December projection	1.8	1.9	2.0		1.7–1.8	1.8–2.0	1.9–2.1		1.5–2.3	1.6–2.2	1.7–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0
December projection	0.1	0.1	0.1	2.5	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1–0.4	0.1–1.1	2.0–3.0

Source: Federal Reserve, March 17, 2021

And, the forward-looking Institute for Supply Management numbers on the health of the U.S. manufacturing sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING INCHES UP: 5.2% ANNUALIZED GDP GROWTH

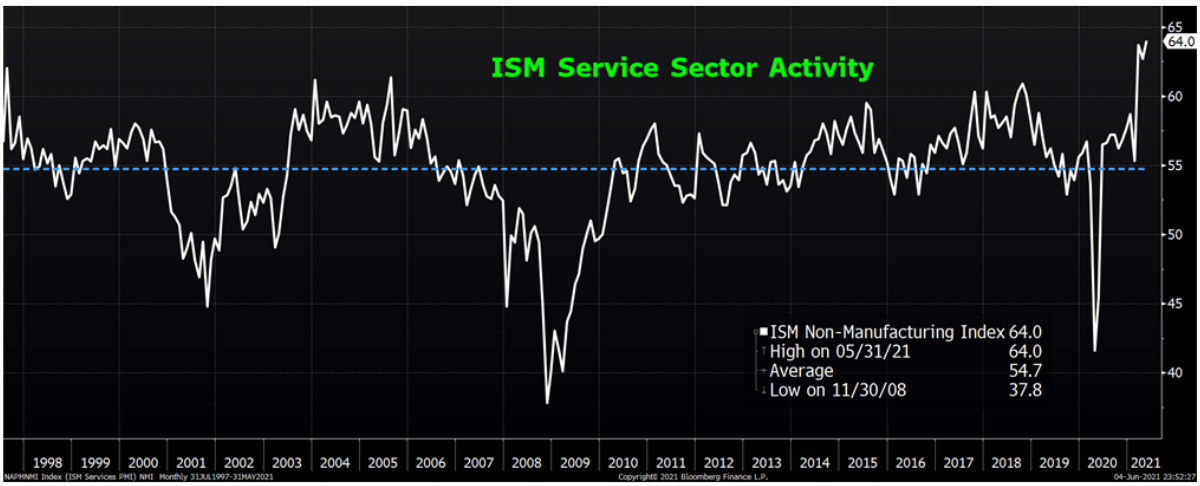
The latest data point on the health of the manufacturing sector came in at a better-than-expected 61.2 in May, rebounding from a reading of 60.7 in April and residing at a level well above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 5.2% increase in real gross domestic product (GDP) on an annualized basis."

…and services sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING HITS RECORD: 5.2% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector rose to a better-than-expected 64.0 in May, up from 62.7 in April. The figure is a record high and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 5.2% increase in real gross domestic product (GDP) on an annualized basis."



…seemed to validate the boost to the outlook for U.S. growth this year and next provided last week by the Organisation for Economic Co-operation and Development (OECD),…

THE PRUDENT SPECULATOR

OECD – GLOBAL OUTLOOK IS UNEVEN BUT MUCH BRIGHTER

The last official projection from the Fed is now nearly three months old, but Jerome H. Powell & Co. were looking for U.S. GDP growth of 6.5% and 3.3% in 2021 and 2022, respectively, below the respective 6.9% and 3.6% estimates out last week from the OECD.

OECD Economic Outlook projections

Real GDP growth

% change, year-on-year, colours indicate the direction of revisions since the December 2020 Economic Outlook

downward revision, by 0.3pp or more | no change or smaller than 0.3pp | upward revision, by 0.3pp or more

	2020	2021	2022
World	-3.5	5.8	4.4
Australia	-2.5	5.1	3.4
Canada	-5.4	6.1	3.8
Euro area	-6.7	4.3	4.4
Germany	-5.1	3.3	4.4
France	-8.2	5.8	4.0
Italy	-8.9	4.5	4.4
Spain	-10.8	5.9	6.3
Japan	-4.7	2.6	2.0
Korea	-0.9	3.8	2.8
United Kingdom	-9.8	7.2	5.5
United States	-3.5	6.9	3.6

	2020	2021	2022
G20	-3.1	6.3	4.7
Argentina	-9.9	6.1	1.8
Brazil	-4.1	3.7	2.5
China	2.3	8.5	5.8
India*	-7.7	9.9	8.2
Indonesia	-2.1	4.7	5.1
Mexico	-8.2	5.0	3.2
Russia	-2.6	3.5	2.8
Saudi Arabia	-4.1	2.8	3.8
South Africa	-7.0	3.8	2.5
Turkey	1.8	5.7	3.4

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OECD

Note: *India projections are based on fiscal years, starting in April. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right. Spain is a permanent invitee to the G20. World and G20 aggregates use moving nominal GDP weights at purchasing power parities. Difference in percentage points, based on rounded figures.
Source: OECD Economic Outlook 109 database.

…even as the group offered plenty of reminders that the global recovery from the pandemic is very much uneven,…

NO ORDINARY RECOVERY

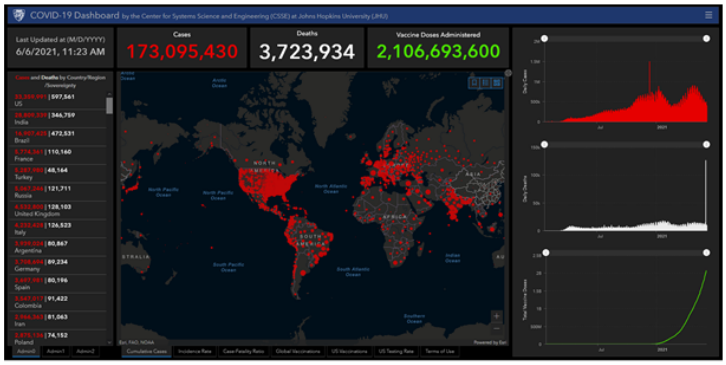
Prospects for the global economy have improved considerably, but to a different extent across economies. In the advanced economies, the progressive rollout of an effective vaccine has begun to allow more contact-intensive activities – held back by measures to contain infections – to reopen gradually. At the same time, additional fiscal stimulus this year is helping to boost demand, reduce spare capacity and lower the risks of sizeable long-term scarring from the pandemic. Some moderation of fiscal support appears likely in 2022 on current plans, but improved confidence and fewer public health restrictions should encourage households to spend. However, in many emerging-market economies, slow vaccination deployment, further infection outbreaks and associated containment measures, will continue to hold down growth for some time, especially where scope for policy support is limited.

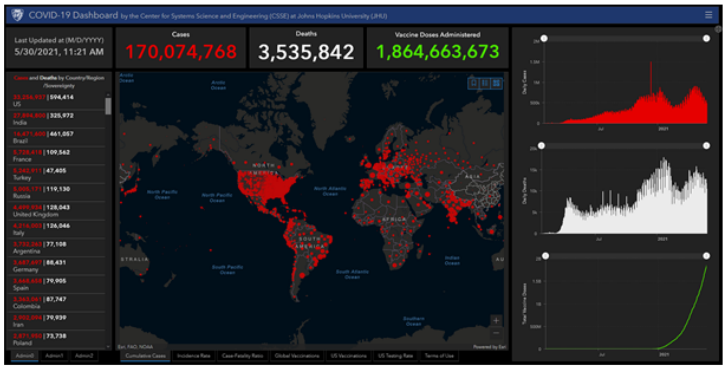
Global GDP is projected to rise by 5¾ per cent in 2021 and close to 4½ per cent in 2022. The world economy has now returned to pre-pandemic activity levels but will remain short of what was expected prior to the crisis by end-2022. Growth in the OECD area could rise to 5¼ per cent in 2021, led by a strong upturn in the United States, and then ease to 3¾ per cent in 2022, with strong private spending helping to ensure that the GDP level returns close to the path expected before the pandemic in most countries. Output in China has already caught up with this path and is set to stay on this trajectory in 2021 and 2022. Some other emerging-market economies, including India, may continue to have large shortfalls in GDP relative to pre-pandemic expectations, and are projected to grow at robust rates only once the impact of the virus fades.

…especially with many countries still seeing sizable jumps in COVID-19 cases and fatalities.

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASE AND MORTALITY RATES





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

Given that more than 3.7 million have lost their lives around the world, with more than 597,000 of those in the U.S., there is still plenty of bad news related to the COVID-19 Pandemic, especially as the increase in the latest week's global new diagnoses jumped by 3.0 million. The rise in weekly fatalities of 188,000 was due in large part to a tripling of the reported death total in Peru, but India is still struggling with 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, 41.4% of all Americans are now fully vaccinated.

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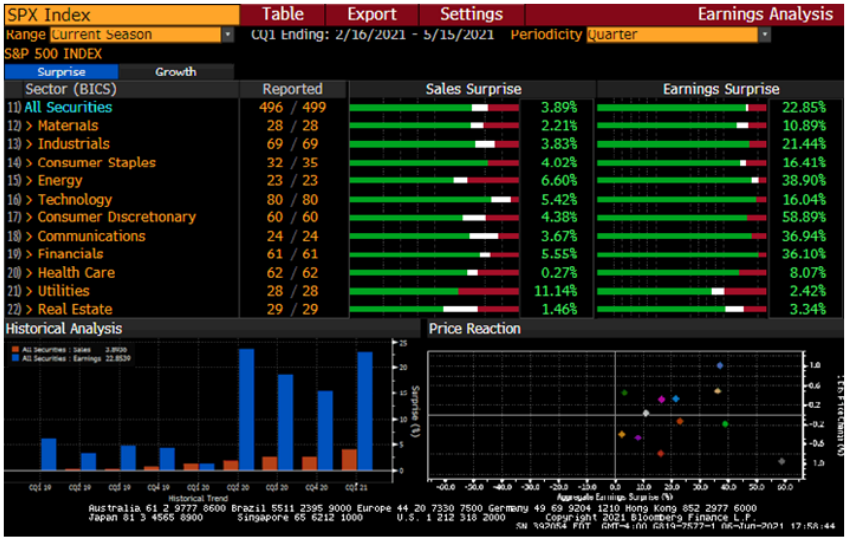
Certainly, we are not unhappy to see a favorable economic forecast, as it supports the stellar projections for corporate-profit growth,…

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021 AND 2022

Q1 earnings reporting season has been fantastic, relative to analyst projections that were still too too pessimistic in their top- and bottom-line estimates. 87.5% of S&P 500 companies have topped EPS expectations and a very-high 72.3% 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	$55.57	$209.52
9/30/2022	$53.61	$202.71
6/30/2022	$50.55	$195.57
3/31/2022	$49.79	$188.70
12/31/2021	$48.76	$186.53
9/30/2021	$46.47	$175.95
6/30/2021	$43.68	$167.38
3/31/2021	$47.62	$150.49
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

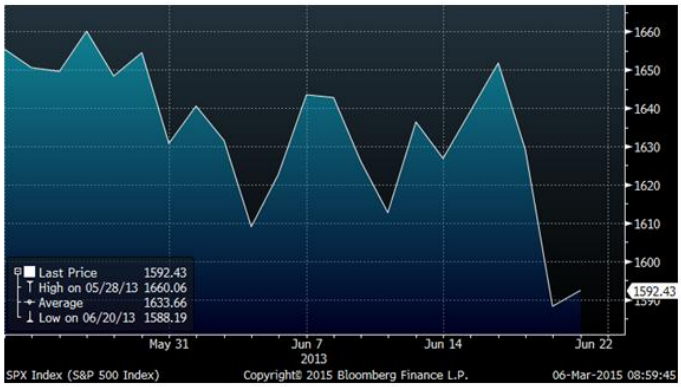
Source: Standard & Poor's. As of 5.28.21

…even as we realize that eventually the Federal Reserve will be forced to become less accommodative. Obviously, nobody can predict how investors will react when that day comes, but we do have a relatively recent example, with the so-called Taper Tantrum in 2013, in which the mere threat of a cut in Federal Reserve bond buying led to a quick selloff…that was quickly overcome,…

THE PRUDENT SPECULATOR

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%.



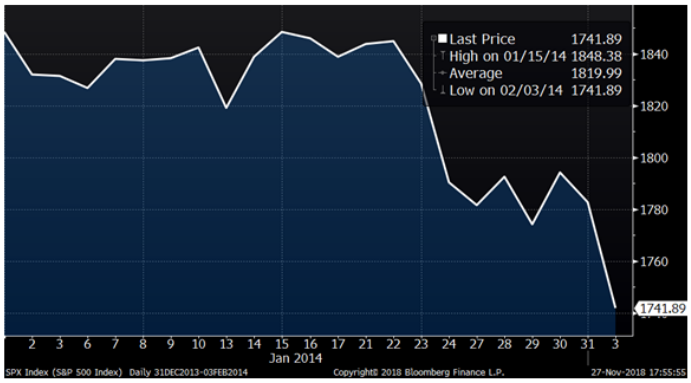
Yet, one year later, the S&P 500 had recouped those losses and then some, rising 13.6% from May 22, 2013, to May 22, 2014, even though Janet Yellen's Fed actually started to taper by $10 billion per month in January 2014.

…and the actual reduction of the bond buying precipitated another short-term dip that was also recouped (and then some) in short order.

THE PRUDENT SPECULATOR

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.

So, we lose little sleep over the prospect of higher interest rates, especially as market history suggests such an occurrence favors the kinds of stocks that we have long championed,…

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

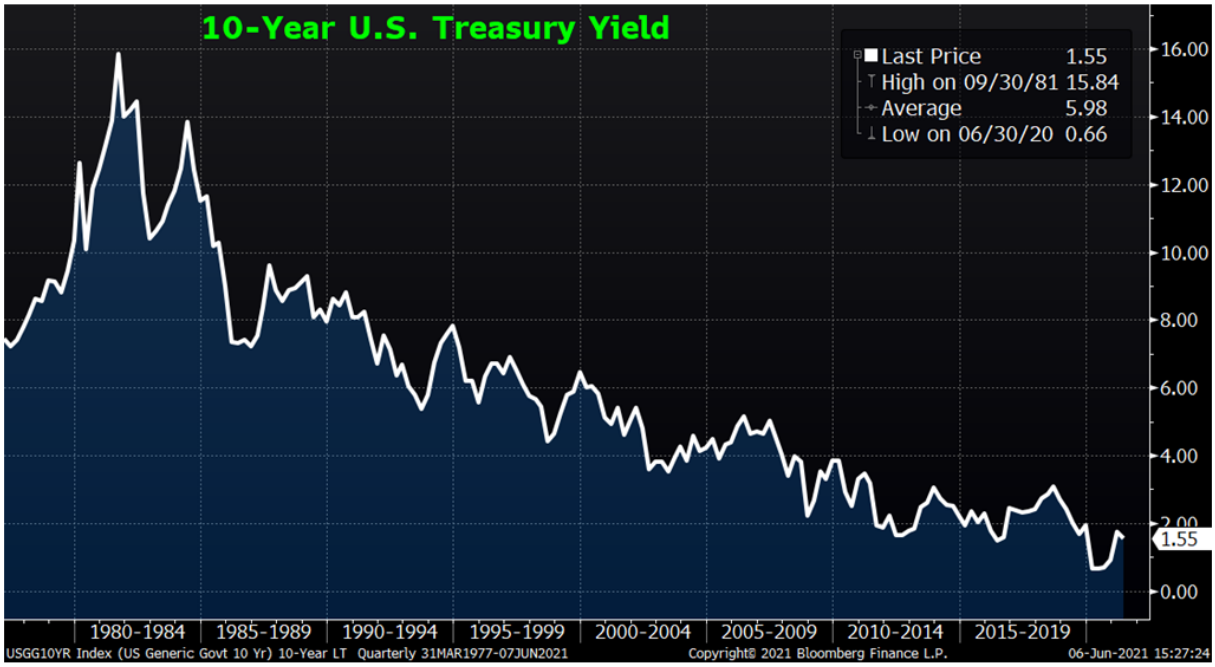
Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

…while we note that the yield on the 10-Year U.S. Treasury has jumped nearly a full percentage point since the middle of 2020,…

THE PRUDENT SPECULATOR

INTEREST RATES CAN MOVE IN BOTH DIRECTIONS

While the trend in the 10-Year U.S. Treasury yield has been down for most of the past four decades, rates have soared over the last 11-plus months, even as a 1.55% yield is still extraordinarily low.



…yet, as the Total Returns Matrix featured earlier in this missive vividly illustrates, equities in general and Value stocks in particular have enjoyed sensational returns since last July. We might add that the U.S. Aggregate Bond index has fallen more than 1.5% over the same time period, but folks continue to shovel money into Fixed Income with little overall interest in U.S. stocks, at least as far as flows into exchange traded funds and mutual funds.

THE PRUDENT SPECULATOR

INFLOWS CONTINUE INTO BOND FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	5/26/2021	5/19/2021	5/12/2021	5/5/2021	4/28/2021
Total Equity	7,993	1,471	14,866	9,243	-22,456
Domestic	2,965	-3,176	9,700	5,154	-17,872
World	5,028	4,647	5,165	4,090	-4,584
Hybrid	430	-268	-657	-1,370	1,290
Total Bond	10,382	7,361	9,543	16,595	19,161
Taxable	7,796	5,902	8,693	15,381	16,302
Municipal	2,586	1,459	850	1,213	2,859
Commodities	1,719	887	1,066	550	119
Total	20,523	9,452	24,818	25,018	-1,886

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

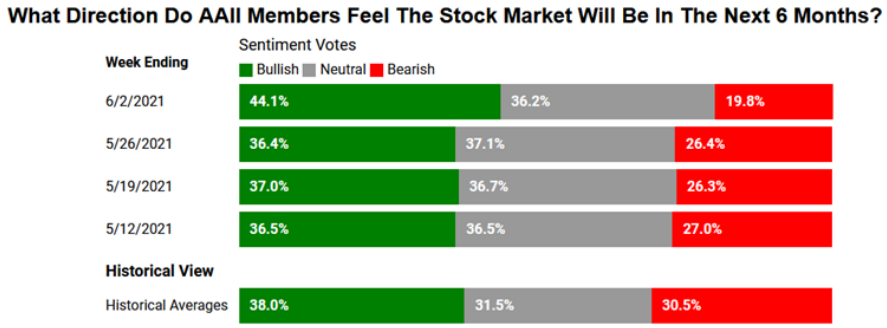
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	25,064
Mar-15	-1,494	4,905	Nov-16	22,993	-13,289	Jul-18	1,007	22,495	Mar-20	-7,485	-273,714
Apr-15	-34,681	11,027	Dec-16	18,859	-4,142	Aug-18	-6,660	17,219	Apr-20	2,664	14,672
May-15	-17,287	5,010	Jan-17	5,097	31,037	Sep-18	886	18,526	May-20	-20,929	73,166
Jun-15	-7,023	6,324	Feb-17	17,613	33,991	Oct-18	-9,657	-27,700	Jun-20	-24,819	100,103
Jul-15	-14,864	-1,255	Mar-17	9,411	36,562	Nov-18	2,783	-7,459	Jul-20	-46,524	98,490
Aug-15	-18,569	-18,122	Apr-17	-8,266	22,064	Dec-18	-28,953	-49,512	Aug-20	-57,594	84,113
Sep-15	-4,725	-10,849	May-17	-10,725	33,070	Jan-19	-21,195	29,308	Sep-20	-28,900	51,000
Oct-15	-807	15,397	Jun-17	-7,944	29,372	Feb-19	3,632	45,138	Oct-20	-52,484	63,918
Nov-15	654	-5,573	Jul-17	-12,518	29,139	Mar-19	-3,654	38,412	Nov-20	41,143	58,854
Dec-15	476	-25,043	Aug-17	-22,771	25,078	Apr-19	-5,307	40,565	Dec-20	-34,003	76,186
Jan-16	-27,222	7,686	Sep-17	-9,775	33,440	May-19	-24,652	21,332	Jan-21	-37,318	93,758
Feb-16	-9,108	11,915	Oct-17	3,166	36,110	Jun-19	-11,997	39,771	Feb-21	45,116	71,788
Mar-16	7,711	29,296	Nov-17	-4,417	19,788	Jul-19	-7,889	44,811	Mar-21	53,232	51,291
Apr-16	-12,610	22,114	Dec-17	-9,054	19,491	Aug-19	-29,908	22,304	Apr-21	-1,013	79,728
May-16	-14,252	16,925	Jan-18	10,778	46,287	Sep-19	-4,650	38,482			
Jun-16	-15,530	16,623	Feb-18	-41,444	2,706	Oct-19	-24,645	43,187			
Jul-16	292	33,575	Mar-18	-22,152	14,148	Nov-19	-11,716	44,480			
Aug-16	-9,956	30,859	Apr-18	-7,403	24,176	Dec-19	-27,500	50,733	**Totals:**	**-727,976**	**1,859,330**

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

That is not to say that the masses are pessimistic on equities,

THE PRUDENT SPECULATOR

AAII SENTIMENT – PESSIMISM AT A 41-MONTH LOW



AAII Bull-Bear Spread

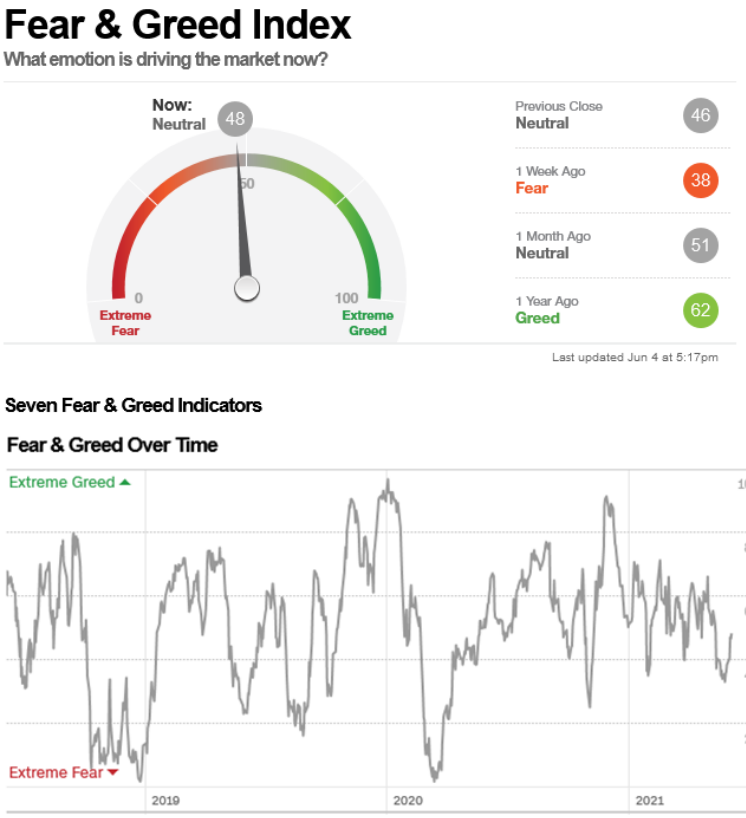
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 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	863	0.16%	0.15%	0.49%	0.40%	1.86%	1.60%	4.41%	3.93%
Ten Groupings of 1764 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	157	0.09%	0.07%	0.34%	0.21%	1.51%	1.27%	4.70%	4.20%
7	12.2	16.6	177	0.21%	0.19%	0.70%	0.60%	2.45%	2.20%	5.06%	4.63%
8	16.7	22.0	180	0.16%	0.14%	0.69%	0.62%	2.01%	1.74%	5.58%	5.16%
9	22.0	29.2	172	0.06%	0.04%	0.35%	0.26%	1.86%	1.59%	4.08%	3.51%
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 6.3.21. 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, June 2, 2021, saw the number of Bulls jump and the number of Bears tumble, with the Bull-Bear Spread rising to 24.3, decidedly above the 7.5 average.

…but we don't see much in the way of alarming numbers on the sentiment front,…

FEAR & GREED INDEX…NEUTRAL READING, DESPITE S&P 500 NEAR RECORD



There remains plenty of frothiness in richly valued (or impossible to value) areas of the equity market, but the *CNNMoney* Fear & Greed Index is in Neutral, with overall market enthusiasm per this gauge of seven indicators held back by Extreme Fear readings for Stock Price Strength and Safe Haven Demand. Put and Call Options and Junk Bond Demand are showing Extreme Greed.

…and we believe that stocks remain reasonably priced, given the still-very-low interest rate environment,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.34% vs. 1.55% 10-Year) and generous S&P 500 dividend yield of 1.37%.

…with the metrics on our portfolios especially enticing.

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	18.9	15.3	1.4	2.5	2.1
ValuePlus	20.6	15.6	1.7	2.5	1.9
Dividend Income	17.8	14.7	1.1	2.5	2.5
Focused Dividend Income	18.2	15.1	1.3	2.6	2.4
Focused ValuePlus	17.8	15.6	1.7	2.8	2.1
Small-Mid Dividend Value	17.2	14.0	0.8	1.8	2.0
Russell 3000	33.6	23.5	2.9	4.3	1.3
Russell 3000 Growth	44.3	30.9	4.6	11.3	0.7
Russell 3000 Value	27.2	19.1	2.1	2.7	1.8
Russell 1000	30.7	23.0	3.0	4.5	1.3
Russell 1000 Growth	38.0	29.6	4.9	12.1	0.8
Russell 1000 Value	26.0	19.0	2.2	2.8	1.9
S&P 500 Index	29.9	22.5	3.1	4.6	1.4
S&P 500 Growth Index	34.9	27.8	5.4	10.2	0.8
S&P 500 Value Index	26.0	18.8	2.1	2.9	2.0
S&P 500 Pure Value Index	16.6	12.4	0.9	1.4	2.2

As of 06.05.21. 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.

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

Hewlett Packard Enterprise (HPE – $16.22) reported fiscal Q2 2021 earnings per share of $0.46 (vs. $0.42 est.) and revenue of $6.70 billion (vs. $6.62 billion est.). The information technology solutions company offered guidance that underwhelmed but was regarded among analysts to be very conservative and reflective of supply chain uncertainty. In Q2, HPE had total order growth in the mid-single digits and the company's gross margin expanded 210 basis points year-over-year to 34.3%.

HPE CEO Antonio Neri commented "Our pivot to as-a-Service continued its strong momentum. Our annualized revenue run rate of $678 million was up 30% year-over-year. We saw strong total as-a-Service order growth of 41%. Over 900 go-to-market partners are now actively selling

HPE GreenLake as a part of their own marketplace. And we average a 95% renewal rate with billings from those customers at 124% usage of the regional contract commitments. We have an unmatched portfolio of hybrid cloud services that spans all aspects of networking, compute, storage, VMs, containers, ML Ops, HPC and more. On the innovation front, we announced a transformative new data storage services platform that brings a cloud operational model to whatever data it is by unifying data operations. The platform will be available through HPE GreenLake Central and includes a new data services cloud console and a suite of software subscription services that simplifies and automates global infrastructure and scale. Our industry-leading HPE GreenLake Cloud Services experience enable us to gain more than 90 new customers during the quarter. Carestream is a great recent customer, for example. In a 3 years multimillion-dollar deal, Carestream selected HPE GreenLake Cloud Services with HPE Ezmeral software HPE Pointnext services to power a transformative new health care initiative based on Artificial Intelligence-as-a-Service."

Mr. Neri concluded, "Over the past year, our global communities have faced a catastrophic health crisis and significant business disruption. At HPE, we accelerated our strategy to be the edge-to-cloud Platform-as-a-Service company to support our customers' rapidly changing needs, who have defined our 60,000 team members' demonstrated amazing agility and perseverance. And I'm tremendously proud of our team members' response during this unprecedented time. I want to thank them for their commitment and passion that has made HPE stronger and better positioned in a world that is forever changed. As businesses emerge from the pandemic and move beyond the realities of COVID, digital transformation is at the forefront of their strategic initiatives. At our Discover event on June 22, you will hear more about how HPE is at the center of this super-charged digital economy. Our edge-to-cloud architecture, software and solutions all delivered as-a-Service will continue to help our customers transform their businesses, optimize their applications, and data clouds are increasingly distributing work and be future-ready today. I'm excited about our momentum, and I believe the HPE represents a strong investment opportunity for our shareholders."

CFO Tarek Robbiati added, "we are once again raising our full year guidance to reflect the continued momentum in the demand environment and our strong operational performance to date. This will be our third guidance increase in SAM in October 2020. We now expect to grow non-GAAP operating profit by 25% to 35% and deliver fiscal year '21 non-GAAP diluted net earnings per share between $1.82 and $1.94. With respect to supply chain, we have executed well to date with minimal impact and continue to take proactive inventory measures where possible. We do see further industry-wide tightening and inflation persisting in the near term, which has been factored in our outlook from both a revenue and cost perspective. But overall demand remains strong. From a top line perspective, we are pleased with the momentum we saw in the first half. And while we continue to see further demand improvement, we remain prudent as certain geographies continue to navigate the pandemic, and we continue to observe uncertainties in the supply of commodity."

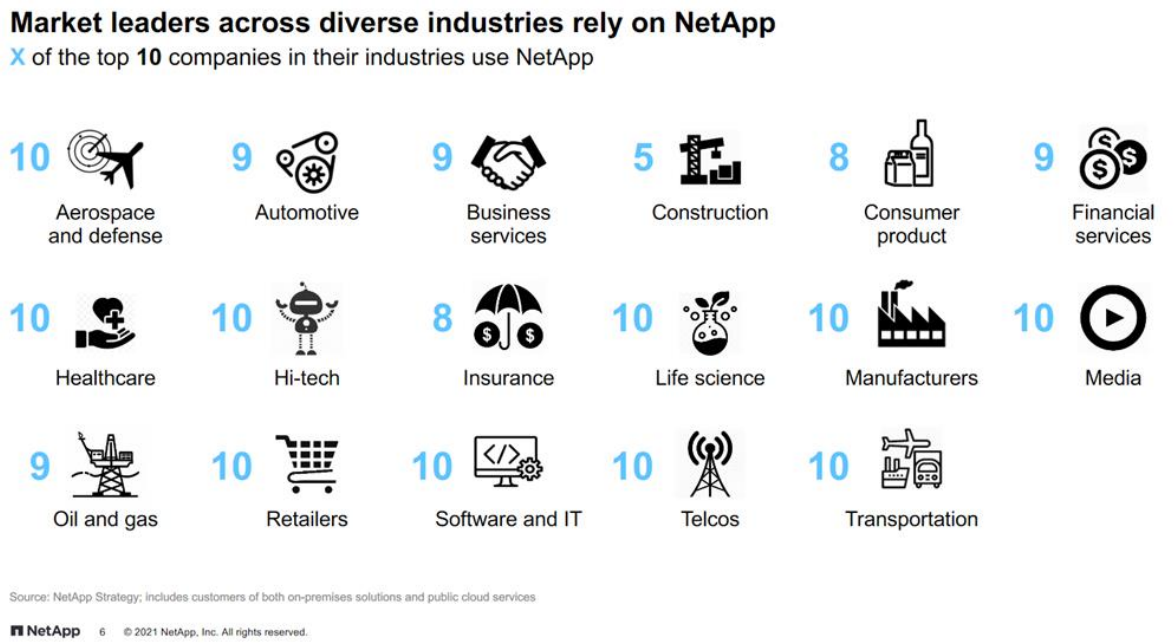
HPE currently has $4.75 billion in an undrawn revolving credit facility and $4.625 billion of cash and equivalents on hand, which equates to more than $9 billion of liquidity. We agree with analysts that HPE's guidance is firmly on the cautious end of the spectrum, with lots of leeway to navigate the industry's supply headwinds and inflation potential. That view isn't a big reach,

however, given that HPE has beaten analyst expectations in every quarter but two since 2016, even as the post-earnings one-day moves have been decidedly negative of late. In 2020, EPS was $1.35, with the bottom line projected to hit nearly $1.90 this year and around $2.00 by 2023. That pencils out to a forward P/E below 9, while the dividend yield is 3.0%. We believe that HPE is headed in the right direction and we like the company's diverse offerings, including 5G networking, and potential to grow subscription revenue. Shares have risen 37% this year and we bumped up our Target Price to $19.

Shares of **NetApp** (NTAP – $80.74) jumped more than 4% last week following a well-received fiscal Q2 earnings report from the global cloud-led, data-centric software company. NTAP posted EPS of $1.17, versus estimates of $1.12, as revenue rose 5% on a year-over-year basis to $1.30 billion. The company reported an all-time-high cash flow number of $1.2 billion, up 25% year-over-year, while the domestic, European and Asian markets recovered more quickly than expected. NTAP added approximately 1,500 new customers with public cloud services in fiscal 2021 and expects to continue the momentum in fiscal 2022.

CEO George Kurian explained, "Customers appreciate the value we bring as a cloud-led data centric software company to simplify and modernize existing datacenters through quickly and confidently deploy applications and just securely manage data on the public cloud. We have long been recognized for our industry-leading enterprise data management technology. Our cloud solutions, drive further differentiation, expand our addressable market and enable us to reach new customers…We saw that enterprises wanted to move workloads to the cloud to address that need, we began working with the leading cloud providers to deliver cloud volume service. A fully managed service with the application certifications required to support mission-critical, production workloads in the cloud. We then recognize the opportunity to expand beyond storage management and optimization to infrastructure monitoring and compute management and optimization services, which led to the development of cloud insight and the acquisition of Spot. These services, cloud Volumes, cloud Insight and Spot are now the primary growth engines of our public cloud services business, they are well established for enterprise applications, and we are taking each of them into the cloud native world further expanding our market opportunity."

Mr. Kurian closed, "Our momentum underscores our value to customers in a hybrid multicloud world. In fiscal year '22 we plan to accelerate our public cloud services and continue to grow our hybrid cloud business. I am excited about the year ahead and confident in our ability to deliver top line growth by supporting our customers on their cloud and digital transformation journey."



NetApp said that it expects revenue to grow between 6% and 7% in fiscal 2022, resulting in EPS between $4.45 and $4.65. For Q1, revenue is projected to come in between $1.37 billion and $1.47 billion with EPS between $0.89 and $0.97. NetApp bills itself as the "data authority for the hybrid cloud." That is, NTAP's products work as a neutral platform between any number of cloud vendors and on-premise environments. The company is #1 (according to Gartner) in general-purpose disk arrays and solid-state arrays, and calls Cisco, Microsoft, Oracle, VMWare, SAP, Citrix, Red Hat, IBM, Infosys, AWS and BMC among its partners. We think that NTAP's commodity hardware (i.e. non-proprietary) and proprietary software model remains attractive, especially as long-term market growth requires significant off-premise and hybrid cloud investments. While the pandemic upset some of NTAP's near-term plans and shares plunged in the first part of last year, they have recovered and then some since touching $35.35 on March 23, 2020. Although NTAP is projected to grow EPS at least 8% in each of the next three years, the price multiples have also expanded slightly. The forward P/E ratio is near 17 and the just-hiked quarterly dividend of $0.50 per share pencils out to a 2.5% yield. Our Target Price has been boosted to $90.

Shares of **Broadcom** (AVGO – $475.00) rallied more than 2% on Friday, following the company's Thursday evening Q2 financial release. The semiconductor giant earned an adjusted $6.62 per share, versus the analyst consensus of $6.44. Revenue was $6.61 billion, compared to

the projection of $6.51 billion. Revenue rose 14% year-over-year, with Semiconductor Solutions up 17% and Infrastructure Software climbing a more modest 5%. We were constructive on demand within wireless (up 52% and 40% of semi mix), while networking orders are being driven by higher spending from cloud customers and telecom providers.

CEO Hock Tan commented, "Due to the strength in demand for semiconductors across our multiple end markets, we delivered 20% year-over-year increase in semiconductor revenue. Our third quarter outlook projects this year-over-year growth to sustain, as we continue to see strong demand from service providers and hypercloud."

CFO Kristen Spears added, "Consolidated revenue grew 15% year-over-year and operating profit increased 25%. We generated $3.4 billion in free cash flow or 52% of revenue in the quarter and are expecting free cash flow to remain strong in the third quarter."

For fiscal Q3, AVGO expects 16% year-over-year revenue growth, which roughly pencils out to $6.75 billion. Management also said that it saw Q3 Adjusted EBITDA guidance of approximately 60% of projected revenue.

After a terrific advance last year. AVGO shares have lagged thus far in 2021. While supply constraints will continue to be a headwind, we think that strong demand and the company's cost discipline are underappreciated, with AVGO metrics remaining inexpensive, including a forward P/E around 16.6 and a free cash flow yield near 7%. We see continued strength in free-cash-flow generation, which should be used to further pay down debt and to look for strategic deals. AVGO also sports a very generous dividend yield of 3.0%. Our Target Price for AVGO has been boosted to $529.

JM Smucker (SJM – $139.82) shares rose by nearly 5% last week on the back of better-than-expected fiscal Q4 financial results. The maker of food and beverage products, including its namesake jelly, posted earnings per share of $1.89, versus the consensus estimate of $1.64. SJM had sales of $1.92 billion (vs. $1.88 billion est.). Upside was driven by better results in consumer foods (such as Uncrustables) and the Away From Home segment. Additionally, SJM introduced its initial outlook for fiscal 2022, which included adjusted EPS in a range of $8.70 to $9.10 and free cashflow of $900 million. While inflated input costs will initially hurt margins, management expects pricing actions taken across all segments to begin rolling through in July, which should ease some of the margin compression.

"Our fourth quarter and full-year results demonstrate the continued execution of our strategy, as we delivered net sales, adjusted earnings per share, and free cash flow above our expectations, with significant investment in our brands and gaining market share in several of our key categories," said CEO Mark Smucker. "Our strong financial results reflect sustained elevated demand for at-home food and coffee consumption and consumers' desire for our trusted and iconic brands. Fiscal year 2021 marked another year of progress strengthening our financial position, with earnings growth and cash generation enabling debt reduction and return of cash to our shareholders."

Mr. Smucker concluded, "Looking ahead to fiscal year 2022, we are focused on building upon the momentum and exceptional results we delivered this year, advancing our consumer-centric growth strategy, and supporting our talented employees who have been instrumental to our success. I am confident the investments we have made in our businesses and the increased agility and flexibility we developed during the past year will enable us to continue driving sustainable growth and shareholder value."

We continue to think that SJM is well-positioned to offer consumers quality food products for home, with sales improving for work, school and restaurants as COVID-19 infection numbers continue to plummet. We continue to appreciate the diversification SJM adds to our broadly diversified portfolios and think that management's focus on pet foods and healthier franchises will boost the long-term prospects for the company. SJM sports a forward P/E ratio of less than 16 and offers a dividend yield of 2.6%. Our Target Price has been hiked to $152.

Shares of **Tapestry** (TPR – $42.75) dipped some 6% in trading last Tuesday with CEO Joanne Crevoiserat speaking at the Bernstein Strategic Decisions Conference. We suspect the election by management to withhold full-year guidance until the next earnings call in August was disappointing for some. But the firm continues to reap benefits from actions taken over the past year, with many operating metrics reaching levels higher than prior to the pandemic.

Ms. Crevoiserat explained, "We did take some bold actions as we came through the pandemic with a focus on changing our operating model and becoming more agile. And that was the genesis of the $300 million in gross run rate savings that we expected. We knew we needed to make our operating model more streamlined. And there are savings resulting from that. But our focus was really to change the way we work and take layers out of the organization to think differently about how we wanted to engage consumers in the future. And you saw us exit some store locations and even markets that were unproductive as part of changing our operating model. And as we streamlined our operating model, we have had and delivered success. We feel great about, and we are on track to deliver the $200 million in gross SG&A savings in this year, and that's gross. It has always been our intent to then leverage those savings and enable investment in places where we see the consumer moving. So how do we need to engage consumers in the future? And that's been the focus. That was the focus as we started. It was actually pre-pandemic as we approached these changes. And frankly, the pandemic caused us to be a little more bold in the decisions we're making and accelerate a lot of that progress, so that we could move faster to meet consumers where they are. So again, a lot of success in taking costs out, both structurally through our organization and operating model and also through our store network and raising the profitability expectations we have on our — in our productivity expectations for our stores, our store fleet."

The fashion concern has leaned into its digital platform to produce insights enabling a reduction in SKU counts between 30% and 50% across brands, which it thinks will also reduce the need for promotional activity to shed less-productive items. While fashion and accessory markets remain intensely competitive, we continue like the control Tapestry has over the distribution of its brands (Coach in particular), which boast significant appeal for luxury consumers. Even as shares have rallied more than 200% since the end of September, the stock still trades for under 15 times NTM earnings expectations, and current respective EPS forecasts for fiscal '22 and '23

stand at $3.16 and $3.46. And, while the dividend remains paused, we anticipate solid free-cash-flow generation (with $876 million generated year-to-date) to allow the firm to resume capital returns in somewhat short order. Our Target Price for TPR now stands at $56.

Last Monday, **Old National Bancorp** (ONB – $19.01) announced a merger of equals with midwestern regional peer First Midwest Bancorp (FMBI). In the all-stock deal, First Midwest stockholders will receive 1.1336 shares of Old National common stock for each share of First Midwest common stock they own. Following completion of the transaction which is expected to close in late 2022, Old National shareholders will own 56% of the combined company. The new organization will operate under the Old National Bancorp and Old National Bank names, with dual headquarters in Evansville, Indiana and Chicago, Illinois. Michael Scudder, Chairman and CEO of First Midwest Bancorp, will serve as the Executive Chairman, and Jim Ryan, Chairman and CEO of Old National Bancorp, will remain CEO of the combined entity.

"First Midwest and Old National are two relationship-focused financial institutions that have rich histories, extremely compatible cultures and a shared commitment to helping our clients achieve financial success," commented Mr. Scudder. "As a combined organization, we will be in an even stronger position to invest, grow and innovate in talent, capabilities and services that will enhance an already superior client experience and further set us apart as a market leader not only in Chicago but across the Midwest."

"First Midwest's leadership team and colleagues not only mirror the Old National mission, values and culture, they also offer exceptional consumer and commercial banking services," said Mr. Ryan. "We are confident that the powerful synergies, additional market coverage and financial strength this partnership creates will drive long-term shareholder value, and we are excited about combining the outstanding legacies of two strong, client- and community-focused organizations."

Despite the similarities between the two banks (ranging from parallel loan/deposit portfolio composition to employee counts), there is little geographic overlap between each of their markets on a micro level. Given the bifurcation of size between mega-cap money-center banks (or even some larger regionals) and small-/mid-cap banks such as these, we expect there could be many more of these kind of deals in the near future. The combination will be relatively exposed to interest rate spreads (with approximately 75% of pro-forma revenue from net interest income) but could really benefit if the yield curve continues to steepen. And if execution goes as planned, there are significant opportunities to cross-sell products, improve operating leverage by wringing out the cost of overhead and benefit from further investment in technology.

While the market was not enthused about the deal, given that ONB initially fell on the news before rallying back to near breakeven for the week, we think the price tag was reasonable and we see no reason to alter our $24 Target Price. Old National today trades near book value, while management expects a return on equity in the mid-teens and the dividend yield is a generous 2.9%.

Shares of **Abbott Labs** (ABT – $109.29) fell more than 6% last week after the health care concern announced on Tuesday that it was lowering its full-year 2021 outlook due to

significantly lower recent and projected COVID-19 diagnostic testing demand. The full-year adjusted EPS range forecast is now $4.30 to $4.50, which fell well short of the range of analyst expectations of $4.96 to $5.20 (with the consensus estimate at $5.04).

Management said the downgrade in forecast was driven by several factors, including significant reductions in COVID-19 cases in the U.S. and other major developed countries, the accelerated rollout of COVID-19 vaccines globally and, most recently, U.S. health authority guidance on testing for fully vaccinated individuals. "We've recently seen a rapid decline in COVID-19 testing demand and anticipate this trend will continue, which led us to adjust our full-year guidance," said CEO Robert B. Ford. "At the same time, excluding COVID-19 tests, our organic base business growth is accelerating, we continue to see improving end-markets and our new product pipeline continues to be highly productive."

Hard to be too upset that better overall COVID-19 news was responsible for the downward revision and we note that some additional news hit the wire on Thursday that might add a small boost to Abbott's operations. **Medtronic** (MDT – $123.85). which we own and are still quite constructive on, announced that it would be suspending the global distribution and sale of its HeartWare ventricular assist device due to safety concerns. Abbott, with a competing product (the HeartMate 3), said it has available capacity and supply to support the growing demand for devices that treat advanced heart failure. According to MDT's website, more than 19,000 people worldwide had their system implanted.

Bram Zuckerman of the U.S. Food and Drug Administration said, "We are working closely with both Medtronic and Abbott to ensure patient care is optimized during this transition period and that there is an adequate supply of devices available to provide this patient population with options for end-stage heart failure treatment."

Considering MDT, this news was not unexpected and there should be no impact to the company's 2021 full-year guidance as there had been a number of issues with the product and ABT's device had shown superior clinical data. MDT's HeartWare had realized a rapid decline in revenue for the device and to date in 2021 the product had overall losses of $82 million.

Back to Abbott, we continue to consider it an attractive position with its leading diagnostics franchise that has proven to be a gem over the past 15 months, and we see many of its other business set to rebound. We continue to think very highly of the firm, and like the continued growth prospects of its FreeStyle Libre glucose monitoring system, with the 3rd version coming. We believe the company has solid earnings growth power, driven by a number of innovative recent and upcoming product offerings across all of its divisions. Our Target Price for ABT has been adjusted to $131.

Crop nutrient competitors **Mosaic Co.** (MOS – $36.03) and **Nutrien Ltd** (NTR – $64.53) traded in opposite directions Friday with the former sliding by nearly 3% on the news that it would be accelerating the closure of its K1 and K2 mines by nine months. As a result of the closures, MOS will recognize $20 million to $25 million of cash costs and incur a write-down of the assets by $80 million to $100 million. We expect Nutrien to benefit from the closures as it fills the void

resulting from any reduction of production volume over the near term, but MOS expects its K3 facility to provide an incremental 2 million tonnes of capacity once fully operational next year.

MOS CEO Joc O'Rourke said, "Mosaic has been managing inflows at Esterhazy since 1985 and has accelerated the development of the K3 shafts to allow for the ultimate closure of the K1 and K2 shafts. For the last decade, we've run scenarios that relate to the early closure of these shafts. As a result of that planning, we expect to end up in a stronger position than ever in 2022."

Political turmoil and difficult weather have dealt fertilizer businesses a tough hand over the last couple of years, but strong movement in agricultural prices have launched the shares of both companies over the past year (up roughly 158% and 76% for MOS and NTR, respectively). We continue to like the tremendous operating leverage for Mosaic, especially given current trends, while the retail network at Nutrien offers scale through its network of sticky customers. MOS trades below 12 times forward earnings per share while the more diversified NTR is expected to see EPS accelerate from $1.80 to $3.12 this year and $3.30 in 2022, supporting its attractive dividend yield of 2.9%. The respective Target Prices for MOS and NTR now reside at $40 and $72.

NortonLifeLock (NLOK – $28.45) announced the launch of Norton Crypto, a security feature that will "enable consumers to safely and easily mine cryptocurrency through its trusted Norton™ 360 platform." Vincent Pilette, CEO of the security software provider, explained, "As the crypto economy continues to become a more important part of our customers' lives, we want to empower them to mine cryptocurrency with Norton, a brand they trust. Norton Crypto is yet another innovative example of how we are expanding our Cyber Safety platform to protect our customers' ever-evolving digital lives."

The press release continued, "For years, many coinminers have had to take risks in their quest for cryptocurrency, disabling their security in order to run coinmining and allowing unvetted code on their machines that could be skimming from their earnings or even planting ransomware. Earnings are commonly stored directly on miners' hard drives, where their digital wallet could be lost should it fail. Norton Crypto delivers a secure, reliable way for consumers to mine for Ethereum without opening themselves and their devices up to these pitfalls. Once cryptocurrency has been earned, customers can track and transfer earnings into their Norton Crypto Wallet, which is stored in the cloud so it cannot be lost due to hard drive failure."

We think that the announcement including additional security features in the Norton 360 platform makes sense, but we realize that an ulterior motive of pandering to the cryptocurrency crowd was at play. We don't expect any meaningful earnings impact, though we note that the shares gained more than 2% the day the news broke. With any crypto investor enthusiasm icing on the cake, we continue to like NLOK for its growing cybersecurity platform and 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 now stands at $33.