Market Commentary Monday, June 21, 2021

June 20, 2021

EXECUTIVE SUMMARY

Week in Review – Reminder that Stocks Move in Both Direction
Perplexing Rationale – Inflation & Interest Rate Worries Compel Investors to…Buy Treasuries
FOMC Meeting – Fed Remains Accommodative…and Raises GDP Growth and Inflation Projections
Fed Speak – Dot Plot and Competing Fed Governors
Econ News – No Change in a Robust 2021 Outlook
Valuations – Very Reasonable Metrics and Generous Dividend Yields for our Portfolios
Sentiment – Fear Levels Rise; Pessimism Increases
Perspective – Market Volatility Around the 2013/2014 Fed Tapering
Dividends – Rising Payouts Very Attractive Versus Fixed Income
June Swoon Part 2 – 25 Undervalued Stocks Down 9%+ in June
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on JPM, C, BAC, KR, ORCL & JBL

Market Review

While we are always braced for trips south, as ups and downs are part of the long-term investment process,…

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%	112.5%	987	27	3.4	3/23/2020	6/14/2021
17.5%	67.6%	577	39	2.3	3/23/2020	6/14/2021
15.0%	67.2%	561	45	2.0	3/23/2020	6/14/2021
12.5%	44.7%	337	72	1.3	3/23/2020	6/14/2021
10.0%	35.2%	247	98	0.9	3/23/2020	6/14/2021
7.5%	23.7%	149	157	0.6	9/23/2020	6/14/2021
5.0%	14.8%	73	306	0.3	10/30/2020	6/14/2021

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 6.14.21. 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

…with 5% downturns taking place three times per year on average,…

THE PRUDENT SPECULATOR

5% UPS AND DOWNS SINCE FINANCIAL CRISIS

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

				3/9/2009	3/26/2009	23.11%	BULL
3/26/2009	3/30/2009	-5.44%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	6/3/2019	7/26/2019	10.25%	BULL
7/26/2019	8/14/2019	-6.12%	BEAR	8/14/2019	2/19/2020	16.11%	BULL
2/19/2020	3/12/2020	-26.74%	BEAR	3/12/2020	3/13/2020	9.29%	BULL
3/13/2020	3/23/2020	-17.47%	BEAR	3/23/2020	3/26/2020	17.55%	BULL
3/26/2020	4/1/2020	-6.07%	BEAR	4/1/2020	6/8/2020	30.84%	BULL
6/8/2020	6/11/2020	-7.12%	BEAR	6/11/2020	9/2/2020	19.28%	BULL
9/2/2020	9/23/2020	-9.60%	BEAR	9/23/2020	10/12/2020	9.18%	BULL
10/12/2020	10/30/2020	-7.48%	BEAR	10/30/2020	6/14/2021	30.13%	BULL
Average Drop		**-9.10%**		**Average Gain**		**15.39%**	

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is likely still fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 36 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4166.45.

…we realize that sharp selloffs can be disconcerting, especially when Value stocks suffer an outsized decline.

THE PRUDENT SPECULATOR

AVERAGE STOCK HIT HARD AND PURE VALUE CRUSHED IN THE LATEST WEEK

In something of a head-scratcher, given Federal Reserve projections of better economic growth, higher PCE inflation and interest rate hikes sooner than previously forecast, all of which should benefit Value, stocks not of the Growth variety endured a miserable week.

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
-0.99	-3.16	-0.08	1.91	2.72	8.90	8.27	13.60	13.00	Bloomberg Barclays Global-Aggregate Bond
0.11	-1.60	-0.49	-0.98	-0.11	4.70	9.06	17.34	16.95	Bloomberg Barclays US Aggregate Bond
-3.40	9.79	27.31	32.02	30.25	83.79	31.51	42.60	111.54	Dow Jones Industrial Average
-3.25	12.28	31.72	38.19	36.76	89.49	31.46	37.28	77.60	New York Stock Exchange Composite
0.27	8.83	26.33	31.86	39.21	102.72	69.16	80.98	178.17	Russell 3000 Growth
-4.19	**14.50**	**35.62**	**43.69**	**38.70**	89.56	**29.84**	**35.75**	**74.09**	**Russell 3000 Value**
-1.98	11.57	30.77	37.47	39.25	97.28	50.17	58.83	123.51	Russell 3000
-3.62	15.62	37.79	48.29	43.57	108.36	43.41	50.24	102.70	S&P 500 Equal Weighted
-1.87	11.71	28.70	34.15	35.87	90.10	47.97	58.81	121.45	S&P 500
0.25	10.37	26.02	31.39	37.18	97.22	61.57	75.18	162.45	S&P 500 Growth
-4.13	**13.20**	**32.25**	**37.80**	**33.40**	79.84	**31.32**	**39.44**	**78.28**	**S&P 500 Value**
0.85	7.85	26.51	32.83	35.64	105.37	51.50	51.39	130.05	S&P 500 Pure Growth
-6.74	**23.08**	**52.33**	**69.30**	**55.25**	127.43	**24.13**	**20.19**	**67.41**	**S&P 500 Pure Value**

As of 06.18.21. Source Kovitz using data from Bloomberg

True, inexpensively priced equities have enjoyed a fantastic run over the last 11 months, so we might argue that a round of profit-taking should not be a big surprise, but the explanations for the movements in stocks and bonds by the financial press were perplexing.

THE WALL STREET JOURNAL.

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DJIA 33823.45 ▼ 290.22 0.6% NASDAQ 14161.35 ▲ 0.9% STOXX 600 459.33 ▼ 0.1% 10-YR. TREAS. ▲ 10/32, yield 1.50% OIL $71.04 ▼ $1.11 GOLD $1,773.80 ▼ $25.70 EURO $1.1907 YEN 110.24

U.S. Stirs Global Inflation Fears

America's recovery ripples through prices, currencies, forcing rate hikes in some nations

By Tom Fairless in Frankfurt and Paul Hannon in London

A booming U.S. economy that is driving inflation higher around the world and pushing up the U.S. dollar is pressing some central banks to increase interest rates, despite still-high levels of Covid-19 infections and incomplete economic recoveries in their own countries.

The world's central banks are hanging on how the U.S. Federal Reserve will respond to a rise in inflation, wary of being caught in the crosscurrents of an extraordinary U.S. economic expansion. Global stock markets fell Thursday after Fed officials signaled they expect to raise interest rates by late 2023, sooner than they anticipated in March, as the U.S. economy heats up.

A global march toward higher interest rates, with the Fed at the center, risks stifling the economic recovery in some places, especially at a time when emerging-market debt has risen.

The size of the U.S. economy, accounting for almost a quarter of world gross domestic product, and the importance of its financial markets have long exerted an outsize pull on global policy making. But unusually brisk U.S. growth this year is critical to a world economy still recovering from last year's shocks. Fed officials expect the U.S. economy to grow 7% this year, according to projec-

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◆ Gold sinks, dollar rallies on Fed shift B1

Inflation Rate >= 5.0% 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	3.7%	2.6%	8.0%	5.5%	19.4%	13.5%
Geometric Average	3.0%	1.9%	6.3%	4.0%	16.4%	10.9%
Median	3.6%	2.2%	5.6%	4.1%	16.6%	11.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-55.8%	-48.0%
Count	228	228	228	228	228	228

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

Inflation Rate < 5.0% 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	4.3%	3.2%	8.3%	6.3%	16.2%	12.1%
Geometric Average	3.2%	2.5%	6.3%	4.9%	12.0%	9.2%
Median	4.0%	3.7%	8.2%	6.7%	16.3%	13.1%
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	895	895	892	892	886	886

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

WSJ

THE WALL STREET JOURNAL WEEKEND

SATURDAY/SUNDAY, JUNE 19 - 20, 2021 - VOL. CCLXXVII NO. 142 WS

Rate-Hike Worries Send Dow To Worst Week Since October

By Paul Vigna And Caitlin Ostroff

U.S. stocks retreated Friday to send the Dow Jones Industrial Average to its worst week in nearly eight months, as traders warily eyed the Federal Reserve for hints of where monetary policy is headed.

Policy makers had signaled Wednesday that they expect to raise interest rates by late 2023, sooner than they had previously anticipated. Sentiment waned again on Friday after Federal Reserve Bank of St. Louis president James Bullard said on CNBC that he expects the first rate increase even sooner, in late 2022.

The Fed has faced more inflation than it expected, and policy makers need to be nimble, he added. But it will take several Fed meetings to organize the debate over tapering its bond-purchase program, he said.

The Dow industrials fell 1.6% Friday, or 533.37 points, to 33290.08. For the week, the blue-chip index lost 3.45%, its worst since the week ended Oct. 30.

The S&P 500 declined 1.3%, or 55.41 points, to 4166.45 on Friday, losing 1.9% on the week. That broke a three-week streak of gains. The Nasdaq Composite lost 0.9%, or 130.97 points, to 14030.38, as large technology stocks also fell. For the week, it was down 0.3%.

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◆ Avalanche of options trades fuels pullback B13

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

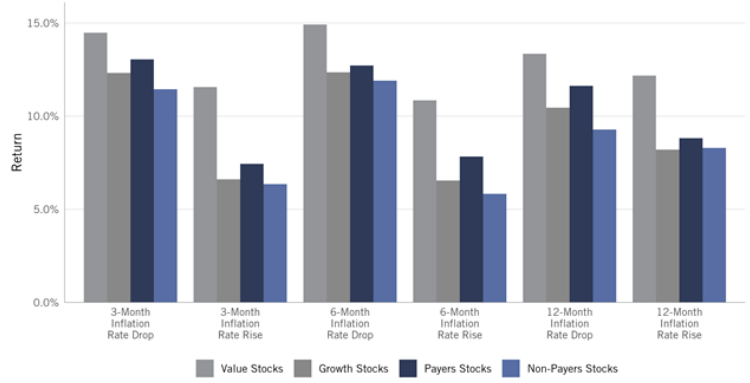
Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	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.

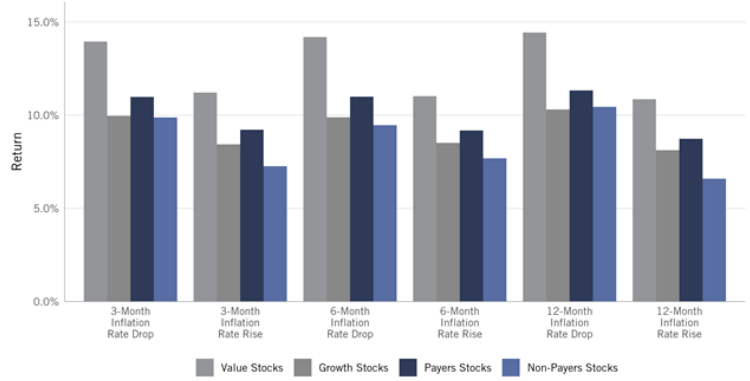
Indeed, if investors were concerned about higher inflation rates (or lower inflation rates for that matter), the historical evidence suggests that equities, in general, and Value stocks, in particular, have been instruments folks should be gravitating toward,…

THE PRUDENT SPECULATOR

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 if they were worried about higher interest rates, they probably would not have piled into 10-Year U.S. Treasuries, driving the yield down below the level at which it resided prior to Wednesday's Federal Reserve news.

TONS OF INTRA-WEEK VOLATILITY, BUT LITTLE CHANGE IN 10-YEAR YIELDS

Incredibly, government bond investors dumped 10-Year U.S. Treasuries (prices fell and yields jumped) on Wednesday in response to the FOMC Statement, Economic Projections and Press Conference, only to quickly change their minds on Thursday and Friday.

Incredibly, while the June FOMC Statement offered little in the way of surprise, as Jerome H. Powell & Co. indicated that the Fed would remain highly accommodative, keeping interest rates near zero and continuing to buy $120 billion of Treasures and agency mortgage-backed securities per month,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 6.16.21

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

Progress on vaccinations has reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

…the accompanying economic projections caused a ruckus, with increases in the outlook for GDP growth in 2021 and in 2023, not to mention a sharp move higher in the forecast for PCE (personal consumption expenditures) inflation this year and a modest tick up in the headline PCE figure each of the next two years.

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

The Fed again increased its consensus projection for a massive U.S. economic recovery in 2021, taking its GDP forecast for real (inflation-adjusted) growth higher to 7.0%, up from a 6.5% estimate just three months ago. And, with little change in forecasts for growth and inflation in 2022 and 2023, Jerome H. Powell & Co. will likely remain very friendly, even if the Fed Funds rate eventually moves up a bit.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 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	7.0	3.3	2.4	1.8	6.8–7.3	2.8–3.8	2.0–2.5	1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7	1.6–2.2
March projection	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
Unemployment rate	4.5	3.8	3.5	4.0	4.4–4.8	3.5–4.0	3.2–3.8	3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9	3.5–4.5
March projection	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
PCE inflation	3.4	2.1	2.2	2.0	3.1–3.5	1.9–2.3	2.0–2.2	2.0	3.0–3.9	1.6–2.5	1.9–2.3	2.0
March projection	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
Core PCE inflation[4]	3.0	2.1	2.1		2.9–3.1	1.9–2.3	2.0–2.2		2.7–3.3	1.7–2.5	2.0–2.3	
March projection	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	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.6	2.5	0.1	0.1–0.4	0.1–1.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	2.0–3.0
March projection	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

Source: Federal Reserve, June 16, 2021

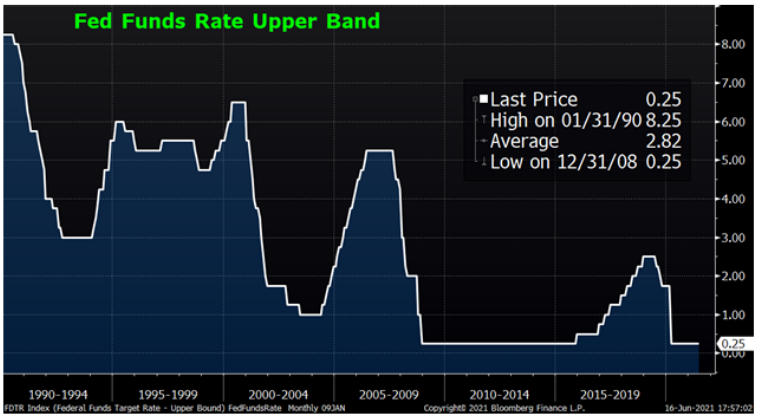
Of course, the number in the economic projections that many chose to focus on was a 50-basis point increase in the median Federal Funds rate guestimate for 2023, suggesting that the Federal Reserve may move to raise interest rates sooner than previously predicted, even as the Fed Chair was quick to comment on the importance of the so-called dot-plot.

ACCOMMODATIVE FEDERAL RESERVE EVEN IF RATES MOVE UP SOMEWHAT

FOMC Participants' Fed Funds Rate Target Level Number with each projection				
Midpoint of Target Range	2021	2022	2023	Longer Run
3.125				
3.000				2
2.875				
2.750				1
2.625				
2.500				8
2.375				1
2.250				4
2.125				
2.000				1
1.875				
1.750				
1.625			2	
1.500				
1.375				
1.250				
1.125			3	
1.000				
0.875			3	
0.750				
0.625		2	3	
0.500				
0.375		5	2	
0.250				
0.125	18	11	5	
0.000				

Source: Federal Reserve, June 16, 2021

It is hard to complain about the better economic outlook offered last week by Jerome H. Powell & Co., even as the so-called "dot-plot" suggests that the Federal Reserve may initiate a couple of modest upticks in the Fed Funds rate next year, especially as 15 of the 17 longer-run estimates are below the average since 1990.



Source: Bloomberg

In response to a question at the FOMC Press Conference, Mr. Powell stated, "In terms of the two hikes — so let me say a couple things. First of all, not for the first time about the dot plot. These are, of course, individual projections. They're not a Committee forecast, they're not a plan. And we did not actually have a discussion of whether lift-off is appropriate at any particular year, because discussing lift-off now would be highly premature, wouldn't make any sense. If you look at the transcripts from five years ago, you'll see that sometimes people mentioned their rate path in their interventions. Often they don't. And the last thing to say is, the dots are not a great forecaster of future rate moves. And that's not because — it's just because it's so highly uncertain. There is no great forecaster of future dots. So, dots to be taken with a big grain of salt."

Obviously, nobody can know for sure where the economy might be next year, much less in 2023, and what the Federal Reserve might then decide on interest rates, as evidenced by two differing views offered by Fed Governors on Friday. On the one hand, Federal Reserve Bank of St. Louis President James Bullard said on *CNBC TV* that the economy is seeing more inflation than anticipated and that he expects the first hike in the Fed Funds rate to occur late in 2022. On the other hand, Minneapolis Federal Reserve President Neel Kashkari stated that he would like to keep the U.S. central bank's benchmark short-term interest rate near zero at least through the end of 2023 to allow the labor market to return to its pre-pandemic strength.

No matter the divergence of views for next year and the year after, there is little doubt that the near-term economic outlook is looking brighter,…

THE PRUDENT SPECULATOR

SENSATIONAL U.S. GDP GROWTH EXPECTED IN Q2

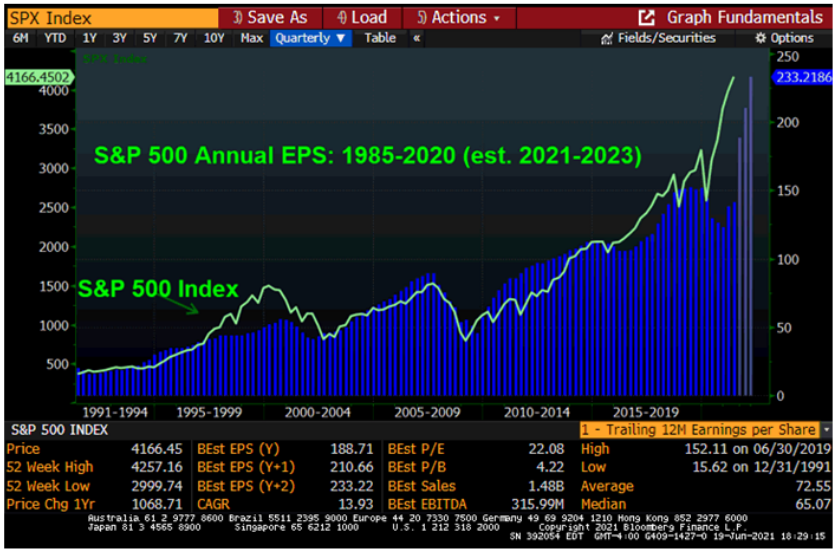
While Q1 2021 saw an acceleration of the economic rebound, following the epic contraction in Q2 2020, the Atlanta Fed is now projecting a superb 10.3% increase in Q2 2021 GDP on an annualized basis.

…which we continue to view as a major positive for corporate profits,…

THE PRUDENT SPECULATOR

EPS PLUNGED IN '20 BUT LIKELY TO REBOUND MIGHTILY IN '21 & '22

Q1 2021 earnings reporting season was sensational on both an absolute and a relative basis. Of course, full-year 2020 COVID-19-impacted EPS were miserable, so a massive rebound was expected, but estimates have been moving higher for 2021, 2022 and 2023.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$55.90	$210.20
9/30/2022	$53.75	$203.18
6/30/2022	$50.68	$196.13
3/31/2022	$49.87	$189.39
12/31/2021	$48.88	$186.93
9/30/2021	$46.70	$176.23
6/30/2021	$43.94	$167.43
3/31/2021	$47.41	$150.28
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 6.17.21

…and we note that Chair Powell had the following to say to open his FOMC Press Conference:

Widespread vaccinations, along with unprecedented fiscal policy actions, are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen, and real GDP this year appears to be on track to post its fastest rate of increase in decades. Much of this rapid growth reflects the continued bounce back in activity from depressed levels. The sectors most adversely affected by the pandemic remain weak, but have shown improvement. Household spending is rising at a rapid pace, boosted by the ongoing reopening of the economy, fiscal support, and accommodative financial conditions. The housing sector is strong, and business investment is increasing at a solid pace. In some industries, near-term supply constraints are restraining activity. Forecasts from FOMC participants for economic growth this year have been revised up since our March Summary of Economic Projections. Even so, the recovery is incomplete and risks to the economic outlook remain.

The latest batch of economic numbers out last week supported the idea that while the economy is enjoying a strong rebound, the recovery is incomplete. Retail sales in May, though very healthy on an absolute level, came in weaker-than-expected,…

THE PRUDENT SPECULATOR

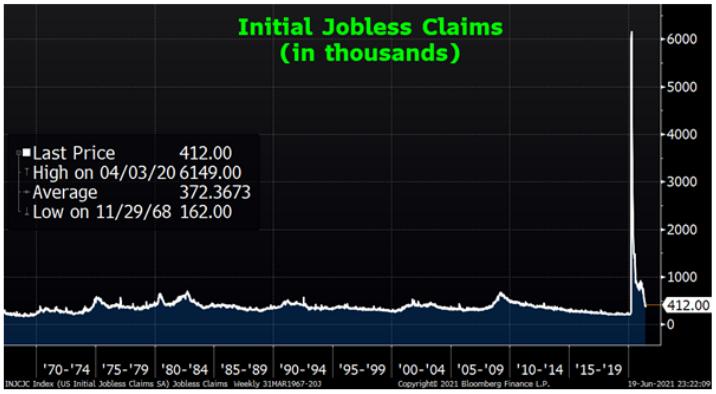
RETAIL SALES FALL IN MAY, BUT CONSUMERS ARE STILL SPENDING HEAVILY

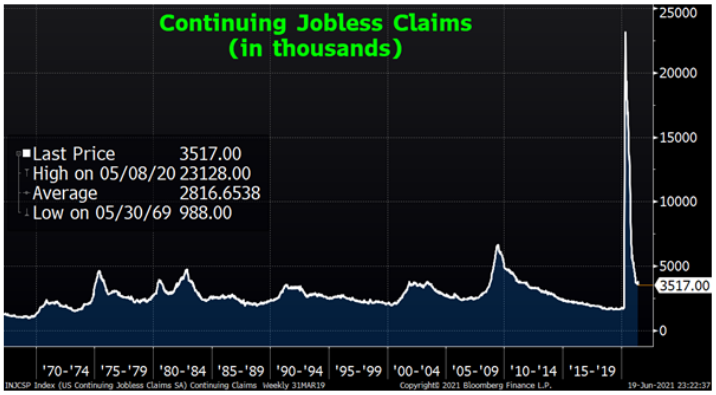
While the $1,400 government stimulus checks that hit bank accounts in March have generally been spent and retail sales retreated by 1.3% in May, folks are still shopping, given that sales last month were 18% higher than in the month prior to the start of the pandemic last year.

…while the bounceback in the labor market took a breather in the most recent week.

THE PRUDENT SPECULATOR

JOBLESS FILINGS MOVE HIGHER IN A SURPRISE



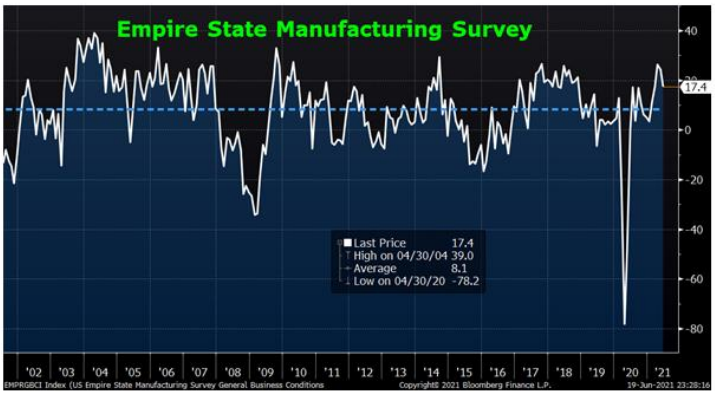


The jobs market recovery stalled a bit in the latest week, with new filings for unemployment benefits for the period ended June 12 climbing to a seasonally adjusted 412,000, up 37,000 from the pandemic low set the week prior. Continuing claims filed through state programs inched higher to 3.52 million, just a tick above a pandemic low, though there have been more than 83 million jobless applications filed over the last 65 weeks.

Of course, the latest two reads on manufacturing were still very healthy,…

THE PRUDENT SPECULATOR

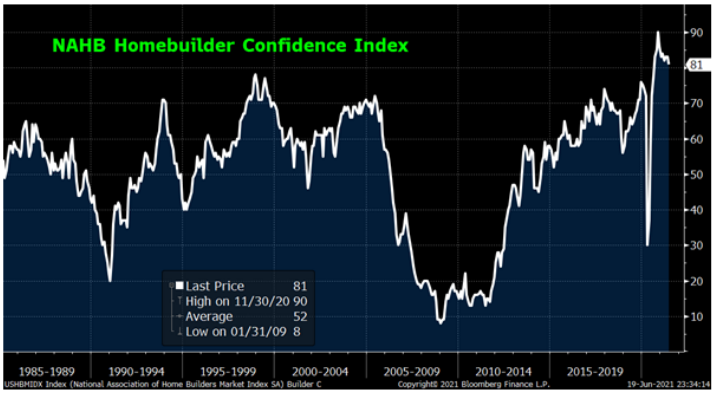
EAST COAST FACTORY ACTIVITY STILL VERY STRONG IN JUNE

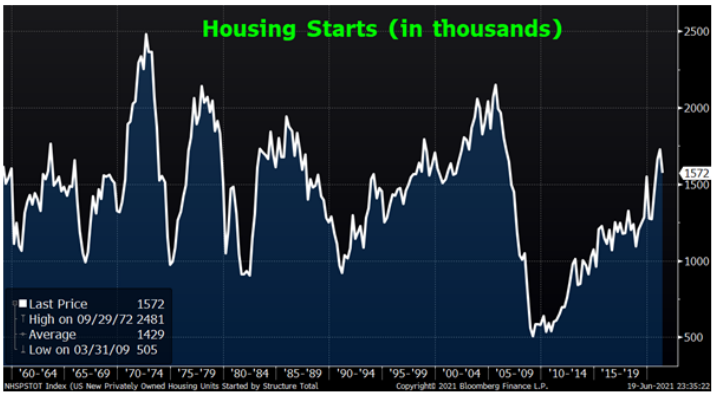


The Empire State gauge of manufacturing activity in the New York area pulled back further in June to a weaker-than-expected 17.4, after hitting its best level since October 2017 in April, with the index still well above average for this business conditions measure. The Philadelphia Fed's June measure of manufacturing activity in the mid-Atlantic region edged lower to a still-very-high reading of 30.7, down from a 50-year high of 50.2 two months prior.

…as was news from the housing sector.

SOLID HOUSING STATS





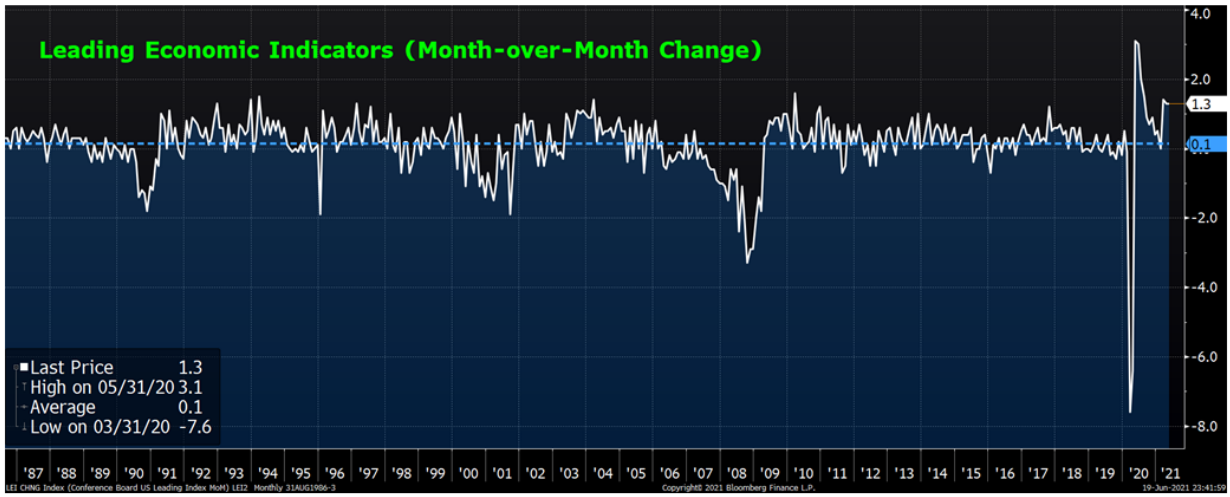
The National Association of Home Builders' monthly confidence index for June inched down to 81, a sky-high level, even as it does mark a continued retreat from November's record tally of 90 on the 35-year-old gauge. No doubt, very low mortgage rates are supporting the housing market and despite shortages and higher prices for materials, builders began construction of new homes at a seasonally adjusted annual pace of 1.57 million.

And, perhaps most important of the statistics out last week, the Index of Leading Economic Indicators suggested a rosy view of U.S. economic growth in the current quarter and for all of 2021,…

THE PRUDENT SPECULATOR

LEI JUMPS AGAIN – 6.6% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index rose by 1.3% in May. The keeper of the metric stated, "Strengths among the leading indicators were widespread, with initial claims for unemployment insurance making the largest positive contribution to the index; housing permits made this month's only negative contribution. The Conference Board now forecasts real GDP growth in Q2 could reach 9% (annualized), with year-over-year economic growth reaching 6.6% for 2021."



…so we generally agree with Jamie Dimon, the well-respected CEO of banking powerhouse **JPMorgan Chase** (JPM – $147.92), who said this past Monday, "I think you're also going to have a very, very strong economy." Mr. Dimon added that he expects rising inflation to result in higher interest rates over the next nine months, both of which we continue to believe will bolster the inexpensive stocks that we hold in our portfolios, shares of which became less expensive last week.

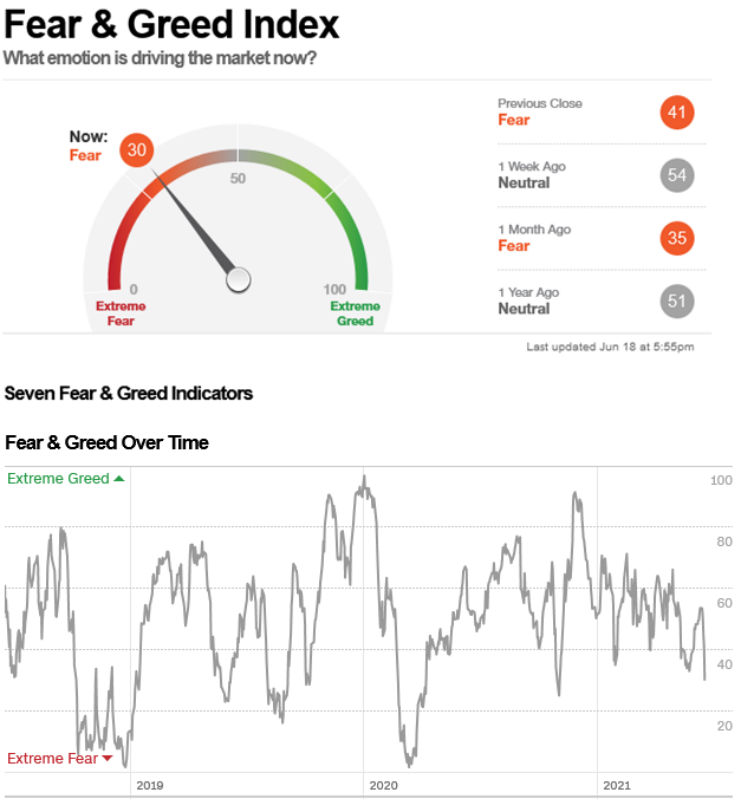
CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.8	14.2	1.3	2.4	2.2
ValuePlus	19.4	14.6	1.6	2.4	2.0
Dividend Income	16.8	13.8	1.1	2.4	2.6
Focused Dividend Income	17.1	14.1	1.3	2.5	2.5
Focused ValuePlus	17.1	14.8	1.6	2.7	2.2
Small-Mid Dividend Value	15.9	12.8	0.8	1.7	2.2
Russell 3000	33.2	23.0	2.8	4.2	1.3
Russell 3000 Growth	45.2	31.6	4.7	11.6	0.7
Russell 3000 Value	26.1	18.0	2.0	2.6	1.9
Russell 1000	30.4	22.6	3.0	4.4	1.4
Russell 1000 Growth	38.8	30.2	5.0	12.4	0.7
Russell 1000 Value	24.9	18.0	2.1	2.6	2.0
S&P 500 Index	29.4	22.1	3.0	4.5	1.4
S&P 500 Growth Index	35.4	28.2	5.5	10.4	0.7
S&P 500 Value Index	24.8	17.8	2.0	2.7	2.1
S&P 500 Pure Value Index	15.2	11.3	0.8	1.3	2.4

As of 06.19.21. 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.

We also note that the market selloff spooked more than a few folks,…

FEAR & GREED INDEX…JUNE SELLOFF QUICKLY RAISING FEAR LEVELS

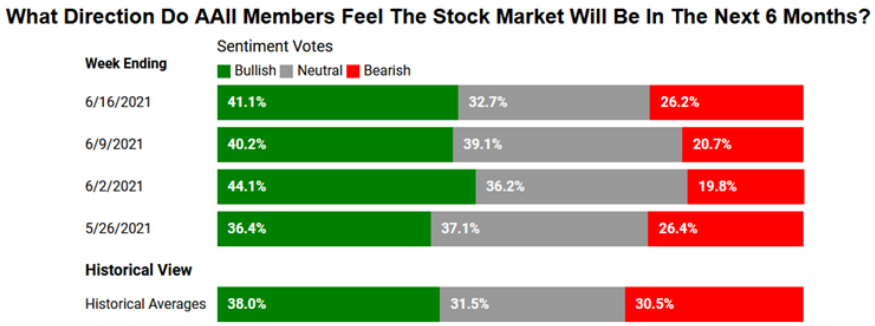


There is still frothiness in richly valued (or impossible to value) areas of the equity market, but the June Swoon has pushed the *CNNMoney* Fear & Greed Index toward the left, with Extreme Fear readings for Stock Price Strength, Stock Price Breadth and Safe Haven Demand. Put and Call Options and Market Momentum are showing Fear, with Market Volatility Neutral and Junk Bond Demand in the Greed zone.

…which we view as a positive from a contrarian perspective, especially as it was just a couple of weeks ago that pessimism on Main Street hit a multi-year low.

THE PRUDENT SPECULATOR

AAII SENTIMENT – BEARISHNESS JUMPS



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	865	0.17%	0.15%	0.49%	0.40%	1.87%	1.62%	4.43%	3.96%
	Ten Groupings of 1766 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	177	0.31%	0.27%	1.49%	1.39%	3.30%	2.90%	7.29%	6.65%
4	-1.3	3.0	180	0.08%	0.05%	1.10%	1.01%	2.97%	2.62%	6.28%	5.75%
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	158	0.10%	0.08%	0.32%	0.20%	1.51%	1.27%	4.62%	4.13%
7	12.2	16.6	177	0.20%	0.18%	0.74%	0.64%	2.51%	2.26%	5.10%	4.67%
8	16.7	22.0	181	0.16%	0.14%	0.69%	0.62%	2.00%	1.73%	5.71%	5.29%
9	22.0	29.2	172	0.06%	0.05%	0.35%	0.26%	1.90%	1.63%	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 6.17.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

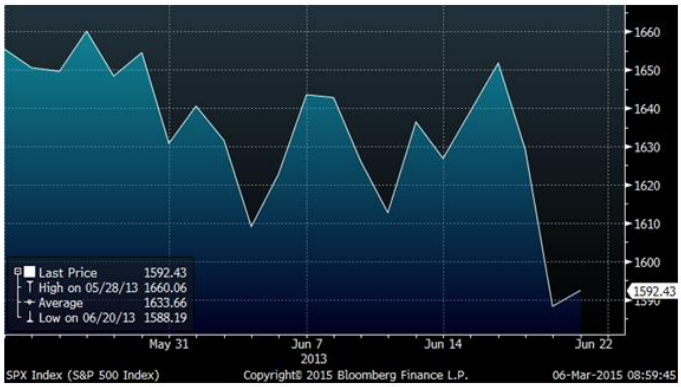
The gauge is widely viewed as a contrarian indicator, and the latest AAII Sentiment Survey released on Wednesday evening, June 16, 2021, saw the number of Bulls inch up 0.9 points but the number of Bears jump 5.5 points, with the Bull-Bear Spread coming in at 14.9 vs. the 7.5 average.

We realize that market volatility tends to increase when investors start to anticipate less accommodative Federal Reserve policy, as happened in 2013 with the so-called “Taper Tantrum,”…

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%.



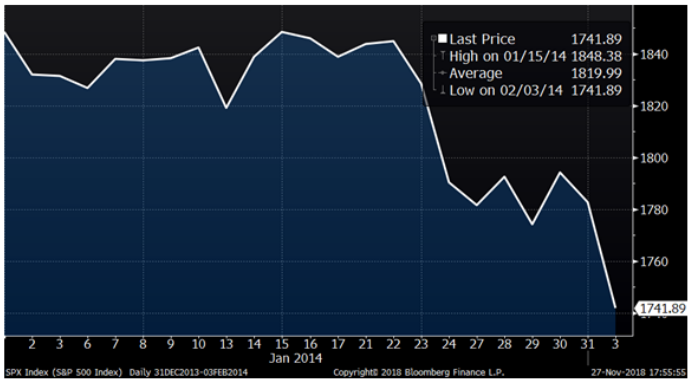
Yet, one year later, the S&P 500 had recouped those losses and then some, rising 14.3% from May 21, 2013, to May 22, 2014, even though Janet Yellen's Fed actually started to taper by $10 billion per month in January 2014.

…and in 2014 when the actual tapering began,…

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.

…but as took place in those two years, we expect stocks to rebound from any short-term turbulence in the fullness of time and the recent dip in interest rates and drop in prices makes equities more, not less, appealing today than they were a week ago,…

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 (3.39% vs. 1.44% 10-Year) and generous S&P 500 dividend yield of 1.39%.

…especially with the robust economy likely to support continued increases in dividends,…

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Per share dividends for the S&P 500 actually inched up in 2020, while in the last two weeks, *TPS* stocks Target, Caterpillar, FedEx and Benchmark Electronics each hiked its payout.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 6.17.21)	189	9	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.)	$64.31
2021 (Est.)	$59.79
2020	$58.95
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 6.18.21

…with the 25 hard-hit names in June detailed below a terrific shopping list, we think, for those with cash on the sidelines.

June Swoon Part 2 - Undervalued TPS Stocks Down 9%+ This Month

Symbol	Common Stock	June '21 TR %	YTD TR %	06.18.21 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AXS	Axis Capital	-11.0	-4.5	$47.73	$68.23	Insurance	56.8	nmf	0.9	3.4	nmf	nmf	nmf	3.5%	4,046
C	Citigroup	-14.1	11.4	$67.61	$101.86	Banks	8.9	nmf	0.9	8.5	nmf	nmf	nmf	3.0%	139,753
CAT	Caterpillar	-13.4	15.9	$208.86	$258.48	Capital Goods	28.4	2.7	12.7	22.3	15.4	4.4	293%	2.1%	114,411
CE	Celanese Corp	-11.5	13.8	$146.47	$177.21	Materials	16.6	2.8	7.9	69.7	16.9	5.0	158%	1.9%	16,497
CMA	Comerica	-12.4	24.3	$68.11	$89.80	Banks	11.1	nmf	1.3	11.4	nmf	nmf	nmf	4.0%	9,509
CMI	Cummins	-9.4	3.7	$233.00	$306.72	Capital Goods	18.3	1.6	5.8	24.8	11.6	6.2	68%	2.3%	34,065
FDX	FedEx	-9.4	10.2	$285.32	$358.80	Transportation	18.2	1.0	5.0	14.8	11.8	5.1	239%	1.1%	75,707
FITB	Fifth Third Bancorp	-12.4	34.8	$36.91	$43.88	Banks	12.5	nmf	1.6	9.7	nmf	nmf	nmf	2.9%	25,983
FL	Foot Locker	-9.5	42.5	$57.25	$77.76	Retailing	10.5	0.7	2.2	24.2	8.2	23.7	90%	1.4%	5,928
GLW	Corning	-11.3	8.8	$38.70	$51.39	Technology Hardware	23.5	2.7	4.5	10.6	15.6	5.2	112%	2.5%	32,948
GT	Goodyear Tire	-15.4	53.7	$16.77	$22.65	Autos & Components	nmf	0.4	1.8	-18.8	18.4	19.6	233%	0.0%	4,681
JPM	JPMorgan Chase	-9.9	17.9	$147.92	$175.98	Banks	11.7	nmf	2.2	16.2	nmf	nmf	nmf	2.4%	447,773
KEY	KeyCorp	-13.5	23.5	$19.93	$25.87	Banks	11.4	nmf	1.5	11.0	nmf	nmf	nmf	3.7%	19,342
LEG	Leggett & Platt	-10.3	12.3	$48.96	$62.97	Consumer Durables	21.2	1.5	nmf	21.5	13.1	7.8	nmf	3.4%	6,523
MDC	MDC Holdings	-9.9	17.6	$52.20	$74.39	Consumer Durables	8.5	0.9	1.7	21.7	7.4	-1.9	73%	3.1%	3,668
MET	MetLife	-10.8	26.2	$58.30	$87.04	Insurance	8.6	nmf	1.0	1.8	nmf	nmf	nmf	3.3%	51,037
MOS	Mosaic Co	-17.0	30.5	$29.92	$39.73	Materials	20.2	1.2	1.3	11.4	9.5	4.5	48%	1.0%	11,363
NEM	Newmont Corp	-14.1	6.4	$62.62	$81.01	Materials	21.0	4.3	2.5	11.4	9.4	6.8	28%	3.5%	50,169
SNA	Snap-on	-16.5	25.6	$212.58	$267.22	Capital Goods	17.0	2.8	4.7	18.9	11.6	9.1	50%	2.3%	11,496
STX	Seagate Technology	-10.9	39.6	$85.30	$109.16	Technology Hardware	17.0	1.9	nmf	87.7	14.1	5.0	nmf	3.1%	19,523
TFC	Truist Financial	-14.5	11.9	$52.81	$71.15	Banks	12.7	nmf	2.1	7.6	nmf	nmf	nmf	3.4%	71,021
TKR	Timken Co	-11.1	2.4	$78.66	$95.70	Capital Goods	18.0	1.7	13.8	15.9	11.4	7.3	344%	1.5%	5,977
TNP	Tsakos Energy	-9.6	2.0	$8.19	$20.02	Energy	12.0	0.2	0.1	-1.6	8.2	nmf	128%	2.4%	149
WHR	Whirlpool	-11.2	18.1	$210.58	$281.17	Consumer Durables	9.2	0.6	nmf	37.4	7.0	15.9	nmf	2.7%	13,188
WRK	Westrock	-10.8	20.6	$52.03	$68.82	Materials	19.7	0.8	8.7	-6.3	17.1	12.2	563%	1.8%	13,846

As of 6.18.21. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

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*.

We also are in the process of posting updated Target Prices to theprudentspeculator.com while Jason Clark, Chris Quigley and Zack Tart look at 6 of our companies that either had news out last week of sufficient interest to merit a Target Price review or are worthy of comment.

Investors seemed disappointed with comments early last week by **JPMorgan Chase** CEO Jamie Dimon that the JPM trading department would generate a bit more than $6 billion of revenue in the current quarter. This would be some 38% below the same period a year ago-one in which pandemic-fueled volatility was a boon for the department. **Citigroup** (C – $67.61) CFO Mark Mason echoed Mr. Dimon's remarks about trading, suggesting a 30% drop year-over-year. Change is also underway at Citi as new CEO Jane Fraser embarks on overhauling the bank's technology suite and risk management protocols, which are expected to elevate expenses in the near-term.

A reduction in trading revenue this year, for both companies, should have been expected given lower market volatility versus that of 2020 which drove banner performance for the segment last year. By comparison, there have been 28 days with daily S&P 500 returns of greater than 1% or less than -1% thus far in 2021 versus 63 of those days in 2020.

On Wednesday, following the FOMC Meeting, near-term outlooks from CEOs of the country's largest banks were seemingly pitted against that of bond investors as a flattening of the treasury yield curve sank the KBW banking index by 6.4% over the preceding five trading days. Of course, the future interest-rate climate remains a major unknown, especially as the last two year have shown, so we like that the money center banks are positioned well to execute in a variety of scenarios.

Moreover, many banks' core businesses grew stronger over the past year as they were forced to hoard capital and lockdowns improved digital engagement. We note that deposit account balances across all U.S. commercial banks have burgeoned roughly 29% from January 2020 through June 1 of this year according to the Federal Reserve of St. Louis. Recent comments by **Bank of America** (BAC – $38.78) CEO Brian Moynihan's seemingly bear this out, noting that his bank's customer transaction volumes year-to-date are 20% higher than the same period in 2019. He further stated, "They're starting to spend a little of that money…The money's still there and they're spending as they have opportunities. People got a lot of stimulus money and they've been spending it."

Of course, loan demand and credit card balances in recent months have remained soft, given stimulus-fueled consumer liquidity, but ought to eventually pick up steam with real economic growth projections of around 7% for the year. Mr. Dimon pointed to the bank's $500 billion cash balance with the expectation for higher yielding opportunities on the horizon, stating, "We do expect rates to stay low for a bit longer; the Fed has told us that…But I do expect you are going to see higher rates and more inflation." We continue to like the strong financial position and healthy customer base for the banks in our portfolios, which should support capital returns to shareholders in the form of share repurchases and increasing dividend payments. We also continue to find their valuations quite reasonable, particularly shares of Citi trading at less than one times tangible book value. Our Target Prices now stand at JPM: $176; C: $102 and BAC: $45.

Shares of **Kroger Co.** (KR – $38.75) held up much better than the average stock last week, ending slightly in the black as the grocer released Q1 financial results that were better than analysts had expected. Kroger delivered $1.19 of earnings per share (27% better than the $0.94 estimate), but nearly even compared to the same quarter last year when customers rushed to stock up on essential items as the world headed into lockdown. Identical sales without fuel have grown a cumulative 14.9% since 2019 with digital sales growth of 16% last quarter, on top of the 92% growth during Q1 of 2020. Management also raised its EPS guidance to between $2.95 to $3.10 for the year, up from the $2.75 to $2.95 range given last quarter.

CEO Rodney McMullen commented, "Kroger is even better positioned to connect with our customers than we were prior to the pandemic as a result of our relentless focus on leading with fresh and accelerating with digital. I am incredibly proud of our amazing associates who

continue to be there for our customers, communities, and each other when they need us most and who strive to deliver a full, fresh, and friendly experience to every customer, every time. Kroger's strong execution delivered identical sales results in the first quarter that exceeded our original expectations. Customers are responding to the investments we have made in digital, as evidenced by our triple-digit growth in digital sales since the beginning of 2019. We were disciplined in driving costs out of the business and we achieved record growth in Kroger's alternative profit business, demonstrating the power and attractiveness of our long-term model."

While competition remains stiff in the grocery space, we like that Kroger continues to remake itself and has moved more in the direction of being offensive versus defensive/reactive. As the landscape slowly transitions away from COVID (hopefully), inflation appears the next possible boogeyman to be dealt with, although we think the firm's competitive position will allow it to pass along additional costs to customers. We like Kroger's focus on competitive house brands, particularly within the fresh category, and appreciate the ballast the stock offers to our portfolio through rocky times. KR trades at 13 times NTM adjusted EPS projections and the yield is 1.8%, but we would not be surprised to see the payout increased in the coming weeks. The Kroger Board also approved a new $1 billion share repurchase program. Our Target Price for KR has been lifted to $45.

System software firm **Oracle** (ORCL – $76.23) posted adjusted earnings per share of $1.54, versus the $1.31 estimate, in fiscal Q4 2021. ORCL had sales of $11.2 billion (vs. $11.0 billion est.). Total cloud services and license support revenue was $7.4 billion, up 8% year-over-year excluding currency movements, led by strong demand in the Fusion Cloud ERP, Autonomous Database and Gen2 OCI cloud businesses. Oracle's operating margin was 47%, a gain of 245 basis points (2.45%) from last year and the best result in seven years.

Chairman and Founder Larry Ellison commented, "Clearly, our strategy to develop cloud applications with cloud infrastructure is now beginning to drive top line revenue growth to go along with years of consistent double-digit earnings per share growth. Our strategy is as easy to explain as it is technically challenging to implement… Our strategy and applications depends on Oracle becoming the world's largest provider of cloud ERP systems. Then building upon that strong ERP foundation, we're going to expand into manufacturing, CRM and industry-specific applications. We are successfully executing this strategy. Oracle Fusion and NetSuite are now the world's 2 most popular cloud ERP systems. SAP, the leader in on-premise ERP, never rewrote their ERP system for the cloud. This has caused hundreds of customers to abandon SAP and migrate to Oracle Fusion ERP. That's already happened. But over the coming months, several more major banks and utilities and a lot of other companies will complete their Oracle Fusion implementation projects and go live on Fusion ERP. Oracle is taking massive amounts of share away from SAP ERP. It's crucial to our future."

Mr. Ellison concluded, "Our cloud application portfolio is more complete than other apps vendors and better integrated because almost all of our applications were developed internally, not acquired. Our infrastructure strategy depends on AI technology, specifically, neural networks and machine learning, that we use to develop second-generation autonomous cloud services, such as the Oracle Autonomous Database, the Oracle Autonomous Linux operating system and an array of autonomous cybersecurity defense bots that automatically identify and neutralize

cyber attacks…Oracle's autonomous database and other autonomous services eliminate human labor. No human labor means no human error or opportunity for human mischief. Autonomy makes computer systems and cars much safer and more reliable. The Oracle Autonomous Database offers 99.995% availability. That means only a few minutes of downtime a year."

CEO Safra Catz offered the outlook: "Total revenues for Q1 are expected to grow from 3% to 5% in USD and are expected to grow 1% to 3% in constant currency. Cloud service and license support revenue growth for Q1 will be about the same as Q4 at 4% in constant currency and then climb through the year. As a result of the increased investment in the quarter, non-GAAP EPS in USD is expected to grow between 2% and 6% and be between $0.94 and $0.98 in USD. Non-GAAP EPS growth in constant currency is expected to be anywhere from negative to positive 2% and be between $0.91 and $0.95 in constant currency. Now my EPS guidance assumes a base tax rate of 19%."

Oracle repurchased 107 million shares for $8 billion in the quarter, bringing the total number of shares bought back over the past year to 329 million for $21 billion. In the past decade, ORCL has reduced the shares outstanding by 44%. Shares sport a yield of 1.7%, while the forward P/E is under 17 and the free cash flow yield is 6.1%. While we didn't see anything wrong with the earnings report, the stock retreated last week as lofty expectations of some analysts were not met, though the total return this year is still some 19%. We remain encouraged by successes despite the pandemic upsetting some of the company's sales process, and we believe that ORCL still has the right leadership team in place as the business adapts to a dynamic cloud business. We have always liked ORCL's relentless pursuit of the #1 spot in any competition. Our Target Price has been raised to $91.

Electronic manufacturing services firm **Jabil** (JBL – $55.66) earned $1.30 per share in Q3 of fiscal 2021 (vs. $1.04 est.), a 251% improvement over the same quarter a year ago. Net revenue for the period was a record $7.22 billion, an increase of 14% year-over-year. JBL benefitted from solid execution and growing demand. Management expects EPS for FY2021 around $5.50 and revenue around $29.5 billion. The core operating margin is expected to come in around 4.2% and free cash flow should grow by 5% to $630 million.

CFO Mike Dastoor explained, "In Q3, we saw continued strength, with notable revenue upside during the quarter in mobility, cloud, connected devices and semi-cap relative to our plan 90 days ago. Given the additional revenue, I'm particularly pleased with the strong leverage we achieved during the quarter, which enabled us to deliver a solid core operating margin of 3.8%, approximately 30 basis points higher than expected. Revenue for our DMS segment was $3.6 billion, an increase of 21% on a year-over-year basis. The strong year-over-year performance in our DMS segment was broad-based, with strength across our connected devices, health care, automotive and mobility businesses. Core margins for the segment came in at 3.9%, 140 basis points higher than the previous year, an incredible performance by the team. Revenue for our EMS segment also came in at $3.6 billion, reflecting strong year-over-year growth in our cloud and semi-cap businesses. Core margins for the segment were 3.8%, up 90 basis points over the prior year, reflecting solid execution by the team."

Our Portfolio
End-Markets

JABIL

DIVERSIFIED MANUFACTURING

$ in billions	FY20	FY21E
Healthcare & Packaging	$4.2	$4.8
Automotive & Transportation	$1.7	$2.2
Connected Devices	$4.0	$4.3
Mobility	$3.3	$4.1
Total Revenue	$13.2	$15.4
Core Operating Margin	3.7%	4.7%

ELECTRONICS MANUFACTURING

$ in billions	FY20	FY21E
Digital Print & Retail	$2.3	$2.4
Industrial & Semi-Cap	$3.5	$3.6
5G, Wireless & Cloud	$5.5	$5.5*
Networking & Storage	$2.8	$2.6
Total Revenue	$14.1	$14.1
Core Operating Margin	2.7%	3.6%

* Cloud transitioning to a consignment model

See U.S. GAAP to non-GAAP definitions located at https://investors.jabil.com/

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Jabil ended Q3 with cash balances near $1.2 billion and $3.8 billion in available credit facilities (plus an additional $2.6 billion outstanding at 3.36% with 6.3 years to maturity). Although JBL has a very modest dividend yield just shy of 0.6%, the company repurchased 2.5 million shares for $130 million in the quarter. JBL has $124 million left on its buyback program and management indicated that the program might get extended beyond 2021.

JBL gained 2.3% after the report but ended up tumbling nearly 4% on Friday amid a broader market pullback. Still, Jabil shares have risen by more than 30% this year, and we like the company's strong execution, diverse business and reasonable valuation. Shares trade for less than 10 times forward earnings and analysts expect EPS growth of at least 8% in the upcoming three years. We also like the exposure JBL gives us to multi-year tailwinds in Cloud, 5G and the electrification of automobiles. Our Target Price has been increased to $67.