Market Commentary Monday, June 28, 2021

June 28, 2021

EXECUTIVE SUMMARY

Week in Review – The Only Problem with Market Timing…
Media Rationale – Stocks Rally on Economic Optimism?
Econ News – Growth Outlook Weakens a Bit
Fed Speak – Chair Powell Upbeat on Capitol Hill
Fed Goals – Maximum Employment, Stable Prices & Moderate Long-Term Interest Rates
History Lesson – 50% Total Return for S&P 500 in 2013 & 2014 Combined Despite Fed Tapering
Reasons for Optimism – Low Interest Rate Climate & Strong Corporate Profits
Stock News – Updates on JPM, C, GS, MS, NTR, BIIB, TTE, SIEGY & FDX

Market Review

Yet again, the equity markets provided a reminder that the secret to success in stocks is not to get scared out of them. After all, a week ago in this space, we were scratching our heads about the explanations being offered for the sizable selloff in stocks over the preceding five trading days,…

THE PRUDENT SPECULATOR

FINANCIAL PRESS – STOCKS GO DOWN, FIND A REASON

THE WALL STREET JOURNAL.

DOW JONES | News Corp ★★★★ FRIDAY, JUNE 18, 2021 - VOL. CCLXXVII NO. 141 WSJ.com ★★★★ $4.00

DJIA 33823.45 ▼ 210.22 0.6% NASDAQ 14161.35 ▲ 0.9% STOXX 600 459.33 ▼ 0.1% 10-YR. TREAS. ▲ 10/32, yield 1.509% OIL $71.04 ▼ $1.11 GOLD $1,773.80 ▼ $85.70 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-

Please turn to page A2

◆ Gold sinks, dollar rallies on Fed shift B1

WSJ

THE WALL STREET JOURNAL WEEKEND

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

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%.

Please turn to page A2

◆ Avalanche of options trades fuels pullback B13

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.

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

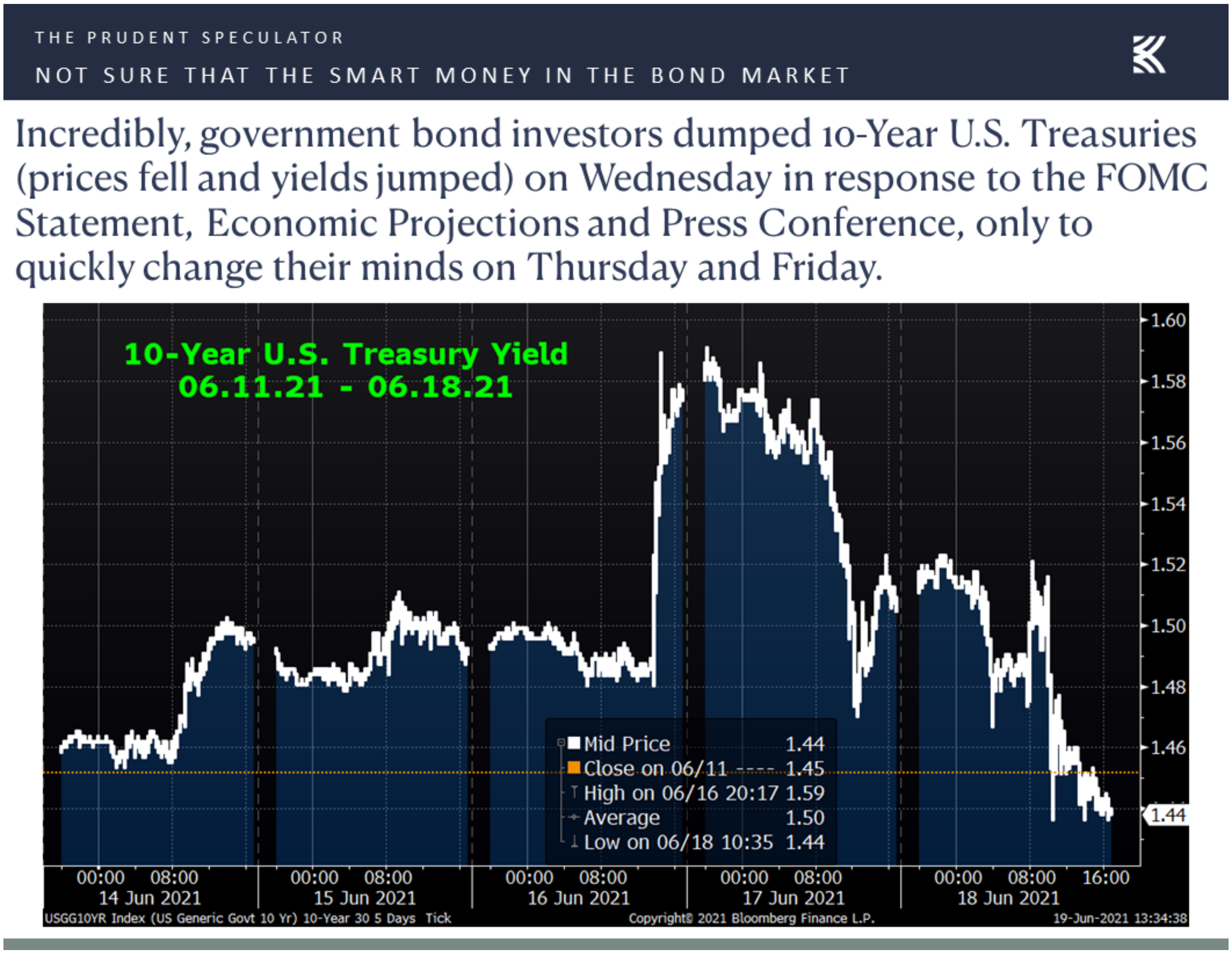
Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

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.

…as the worries about higher inflation and Federal Reserve rate hikes that were cited did not exactly mesh with the post-FOMC-Meeting rally in Treasury bond prices and resulting drop in yields.

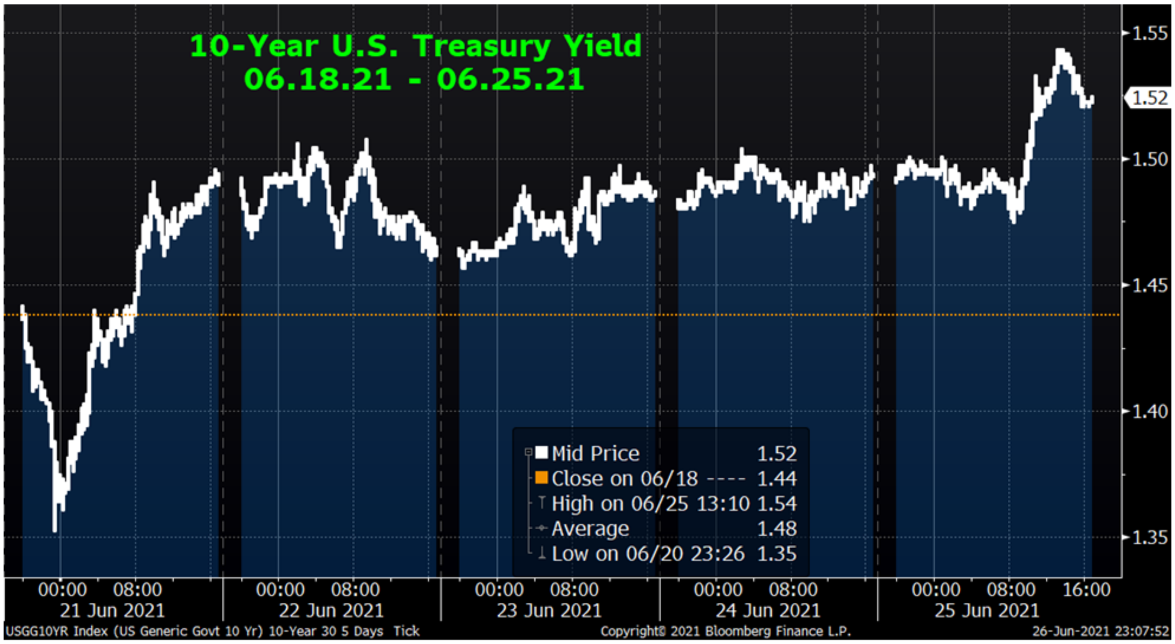


Not surprisingly, some argued that since the supposed smart money is in the bond market, the rally in Treasury prices (and dip in yields from a high on FOMC Meeting Day of 1.59% to 1.44% two days later) must have been signaling weaker economic growth ahead. However, rates reversed course last week, with the 10-Year yield ending at 1.52%,…

THE PRUDENT SPECULATOR

10-YEAR YIELDS JUMP IN LATEST WEEK

Interestingly, after piling into 10-Year U.S. Treasuries (prices rose and yields fell) the two days following the FOMC Statement, Economic Projections and Press Conference, investors changed their minds in the latest trading week, sending the yield up from 1.44% to 1.52%.



…while equity prices enjoyed a terrific five days, with Value stocks leading the way,…

THE PRUDENT SPECULATOR

TERRIFIC REBOUND FOLLOWING AN UGLY THIRD WEEK OF JUNE

Value led the bounce back following a puzzling selloff that followed Federal Reserve projections of better economic growth, higher PCE inflation and interest rate hikes sooner than previously forecast, all of which should historically have benefitted inexpensively priced stocks.

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
-0.04	-3.20	-0.11	1.87	2.65	8.86	6.90	13.22	12.84	Bloomberg Barclays Global-Aggregate Bond
-0.41	-2.00	-0.90	-1.39	-0.55	4.27	8.02	16.71	16.24	Bloomberg Barclays US Aggregate Bond
3.44	13.56	31.69	36.55	36.43	90.11	35.60	51.96	122.26	Dow Jones Industrial Average
3.22	15.89	35.96	42.64	43.59	95.59	35.33	44.22	86.25	New York Stock Exchange Composite
2.64	11.71	29.67	35.34	42.49	108.07	74.81	91.24	190.50	Russell 3000 Growth
3.30	**18.28**	**40.10**	**48.43**	**47.36**	95.82	**33.84**	**41.98**	**82.62**	**Russell 3000 Value**
2.97	14.88	34.65	41.55	44.85	103.14	55.00	67.01	133.93	Russell 3000
3.35	19.49	42.41	53.26	53.08	115.35	48.23	57.71	113.51	S&P 500 Equal Weighted
2.76	14.79	32.25	37.85	41.01	95.35	52.04	66.57	131.30	S&P 500
2.34	12.96	28.97	34.47	40.34	101.84	65.34	84.39	172.98	S&P 500 Growth
3.22	**16.85**	**36.51**	**42.23**	**41.16**	85.63	**35.56**	**45.59**	**87.08**	**S&P 500 Value**
3.19	11.29	30.55	37.06	41.82	111.92	56.02	62.38	141.12	S&P 500 Pure Growth
4.74	**28.90**	**59.54**	**77.32**	**69.39**	138.20	**30.23**	**27.84**	**79.08**	**S&P 500 Pure Value**

As of 06.18.21. Source Kovitz using data from Bloomberg

…and the newspapers letting us know that the rally was due in large part to optimism, yes optimism, about the recovery in the global economy.

Markets Bounce Back In Broad Rally

Optimism about the recovery in the global economy and new stimulus lifts stocks

WSJ
THE WALL STREET JOURNAL WEEKEND
SATURDAY/SUNDAY, JUNE 26 - 27, 2021 - VOL. CCLXXVII NO. 148

Ah, the joys of explaining the gyrations of the equity market! One week ago, *The Wall Street Journal* said, "Rate Hike Worries Send Dow to Worst Week Since October," but after a big rally, folks are seemingly optimistic about the recovery in the global economy?

By Akane Otani And Joe Wallace

U.S. stocks rallied to their best week since February, lifted by robust gains among shares of everything from banks to oil producers and manufacturers.

Markets raced higher from the get-go this week. Stocks jumped Monday, sending the Dow Jones Industrial Average to its biggest one-day climb since March. While the pace of gains slowed over the following days, stocks nevertheless kept mostly rising, allowing the S&P 500 to notch fresh closing highs both Thursday and Friday.

The moves mark a sharp reversal from just a week ago when the Dow suffered its worst stretch since October after the Federal Reserve signaled it would aim to raise interest rates sooner than previously anticipated.

Driving the bounce back, investors say, was data signaling a fresh acceleration in the

Please turn to page A2

Stocks Rise In Broad Rally

Continued from Page One

world economy, as well as optimism over the prospect of additional fiscal stimulus. President Biden and a group of 10 centrist senators agreed to a roughly $1 trillion infrastructure plan Thursday that would go toward improving the electrical grid, transit, roads and bridges and other forms of infrastructure.

The S&P 500 climbed 14.21 points, or 0.3%, to 4280.70 Friday and rose 2.7% for the week, marking its biggest weekly gain since February. The Dow added 237.02 points, or 0.7%, to 34433.84 and added 3.4% for the week, while the Nasdaq Composite fell 9.32 points, or 0.1%, to 14360.39 and added 2.4% for the week.

The gains of this week extend a strong stretch for stocks that has now lasted more than a year. Stocks careened during the early weeks of the pandemic in March and April 2020 as economic activity dropped off sharply. But markets proved resilient, staging a remarkable comeback in the months that followed.

As economic data have caught up, with areas from consumer spending to housing to the labor market showing sustained improvements, investors have bet that stocks can continue to march higher.

"We are still in a phase where we're seeing the activity data still accelerate," said Hani Redha, a fund manager at PineBridge Investments, pointing to surveys showing eurozone business activity is growing at the fastest pace in 15 years.

Earlier in the week, data also showed consumer spending in the U.S. in May was well above pre-pandemic levels, while the number of people filing for unemployment benefits the prior week continued to hover around half of what it had been at the start of the year.

Still, investors say the back-and-forth in markets over the past two weeks suggests there is still lingering uncertainty over the path of interest rates, inflation and monetary policy. That, combined with the relatively low levels of volatility in markets lately, has left money managers cautioning there could be some bumpy stretches ahead for stocks.

The Cboe Volatility Index, which tracks traders' expectations for swings in the stock market, this week traded at its lowest levels of the year.

"It is natural that you'll see very mini wobbles from time to time," Mr. Redha said. "But the fundamental support—that things are improving and the numbers are getting better—is going to dominate that."

Energy shares were among the biggest gainers in the broad market the past week, jumping alongside the price of crude oil.

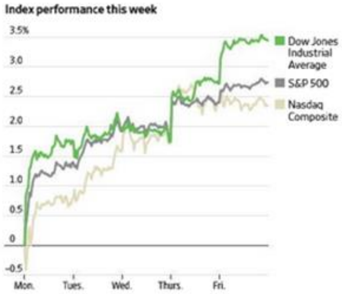
Bank stocks also powered higher as Treasury yields climbed. The KBW Nasdaq Bank Index was up 6.9% for the week, more than doubling the S&P 500's gain over the same period.

Shares of industrial companies also helped lead markets higher. Alongside energy and financial stocks, economically sensitive industrial shares often rise when investors believe growth will pick up.

Some analysts remain concerned that accelerating inflation will prompt the Federal Reserve to withdraw some of the stimulus it has lavished on markets since the spring of 2020. But others say they were reassured by Fed Chairman Jerome Powell's testimony to Congress this week.

Mr. Powell had said he had a level of confidence that inflation will subside, suggesting the Fed will not be in a rush to tighten monetary policy, said Peter van der Welle, a strategist at Robeco. At the same time, "the infrastructure deal also portrays that the fiscal thrust is still very much with us," he said.

Index performance this week



Source: FactSet

That conclusion does not seem unreasonable, except that the latest projection from the Atlanta Fed for Q2 U.S. GDP growth declined somewhat last week,…

THE PRUDENT SPECULATOR

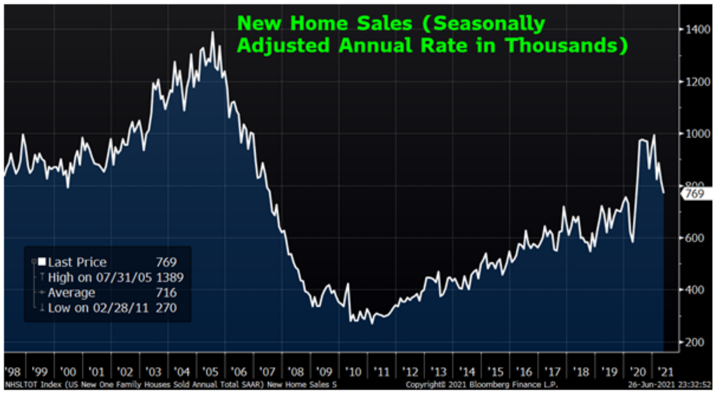
SENSATIONAL U.S. GDP GROWTH STILL EXPECTED IN Q2

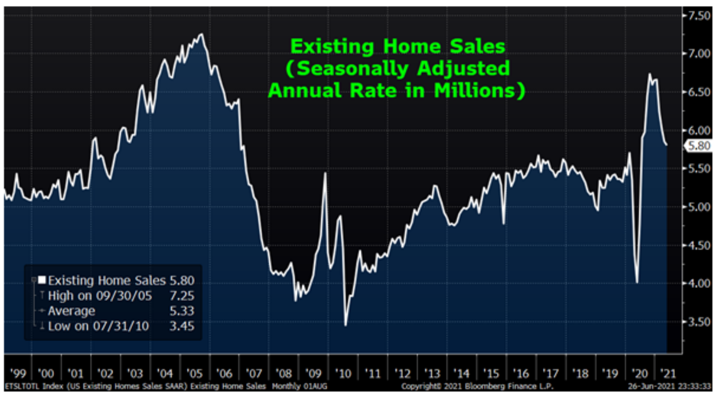
While Q1 2021 saw an acceleration of the economic rebound, following the epic contraction in Q2 2020, the Atlanta Fed is now projecting a superb 8.3% increase in Q2 2021 GDP on an annualized basis.

…as housing numbers,…

THE PRUDENT SPECULATOR

HOUSING TAKES A BREATHER



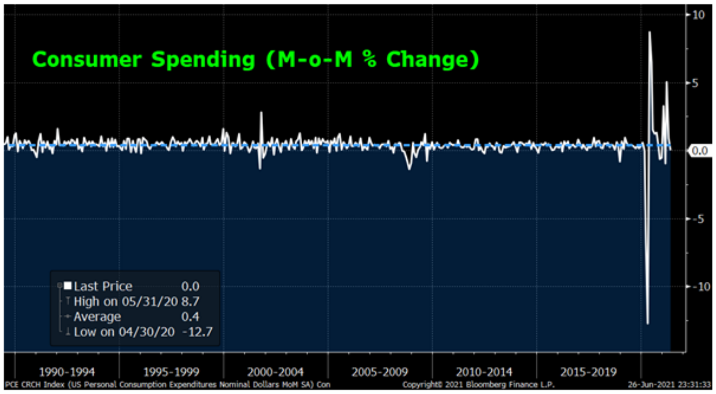


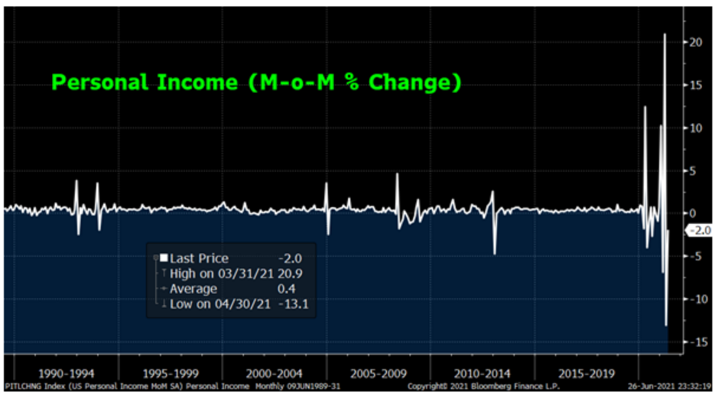
Sales of new homes for May fell well short of expectations, skidding 5.9% from the month prior to 769,000 units, with the biggest drop in the South. The median price for a new home rose to more than $374,000. Meanwhile, sales of existing homes declined 0.9% in May to a seasonally adjusted annual rate of 5.80 million, but home prices hit an all-time high above $350,000, while homes were on the market for a record low 17 days as inventory remained tight.

…and the consumer spending tally were somewhat disappointing.

THE PRUDENT SPECULATOR

CONSUMERS SPENDING FLAT AND SAVINGS LEVELS REMAIN HIGH



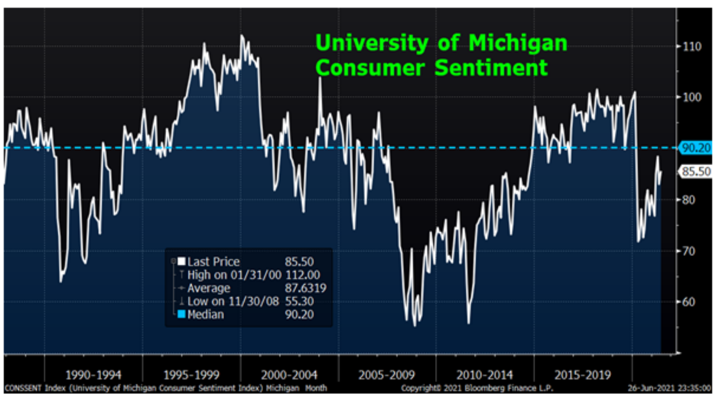


With government stimulus payments more or less spent, consumer spending was flat last month, trailing expectations for 0.4% growth, though April's tally was revised up to 0.9% from 0.5%. Shoppers did have to reach into their savings, as personal incomes, without the extra support from Uncle Sam dropped by 2.0%. Happily, the savings rate came in at 12.4%, down from 27.7% in March, but still well above the pre-pandemic level.

Of course, not all of the economic data were subpar,…

THE PRUDENT SPECULATOR

IMPROVING ECONOMIC NUMBERS

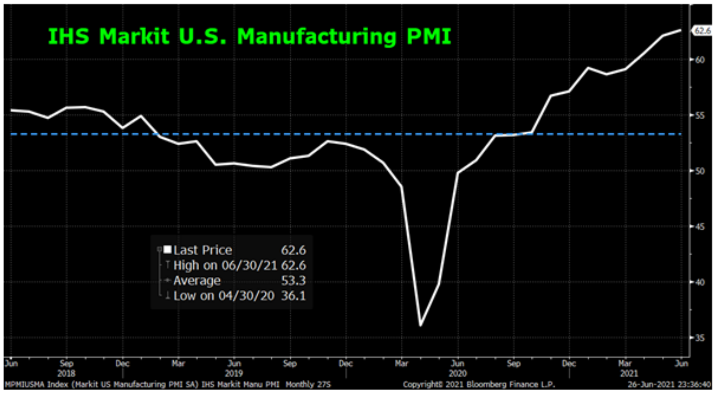


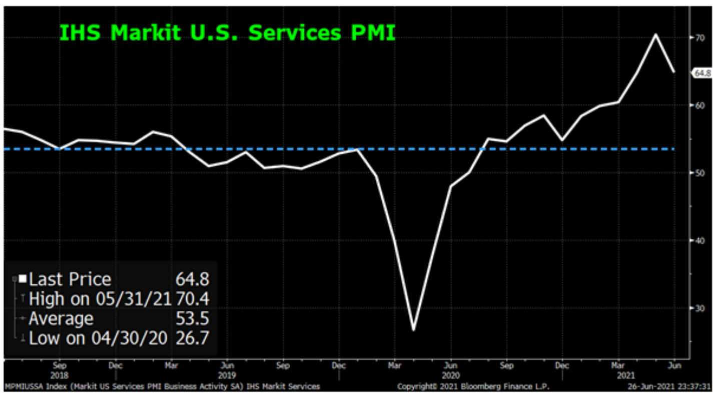
The headline number for durable goods orders in May bounced back with a 2.3% advance, with orders for autos and commercial aircraft leading the charge. Excluding volatile transportation sector, orders rose 0.3%, with business investment still pointing to a solid industrial expansion. Meanwhile, the Univ. of Michigan gauge of consumer sentiment this month rose to 85.5, up from a final reading of 82.9 in May.

…with very good June readings from IHS Markit on the health of the manufacturing and services sectors,…

THE PRUDENT SPECULATOR

RECORD IHS MARKIT MANUFACTURING PMI IN MAY





IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in June came in at 62.6 and 64.8, respectively, the former hitting a record high for the relatively young data series, even as the latter pulled back considerably from the peak hit in May. IHS stated, "The early PMI indicators point to further impressive growth of the U.S. economy in June, rounding off an unprecedented growth spurt over the second quarter as a whole."

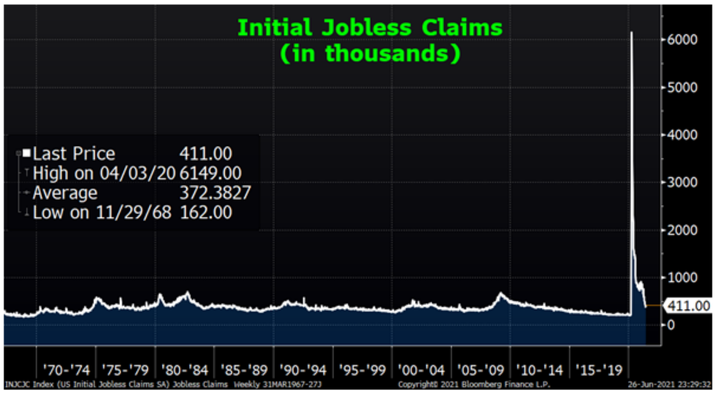
…while Federal Reserve Chair Jerome H. Powell was relatively upbeat last week in his testimony before the Select Subcommittee on the Coronavirus Crisis, U.S. House of Representatives, Washington, D.C.:

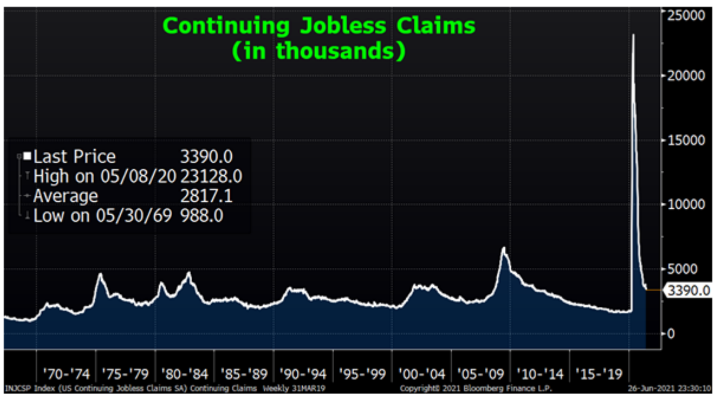
Since we last met, the economy has shown sustained improvement. Widespread vaccinations have joined unprecedented monetary and fiscal policy actions in providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen, and real GDP this year appears 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.

To be sure, there will be plenty of drama ahead related to the Federal Reserve as it works to fulfill its goals of maximum employment,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS DROP IN THE LATEST WEEK





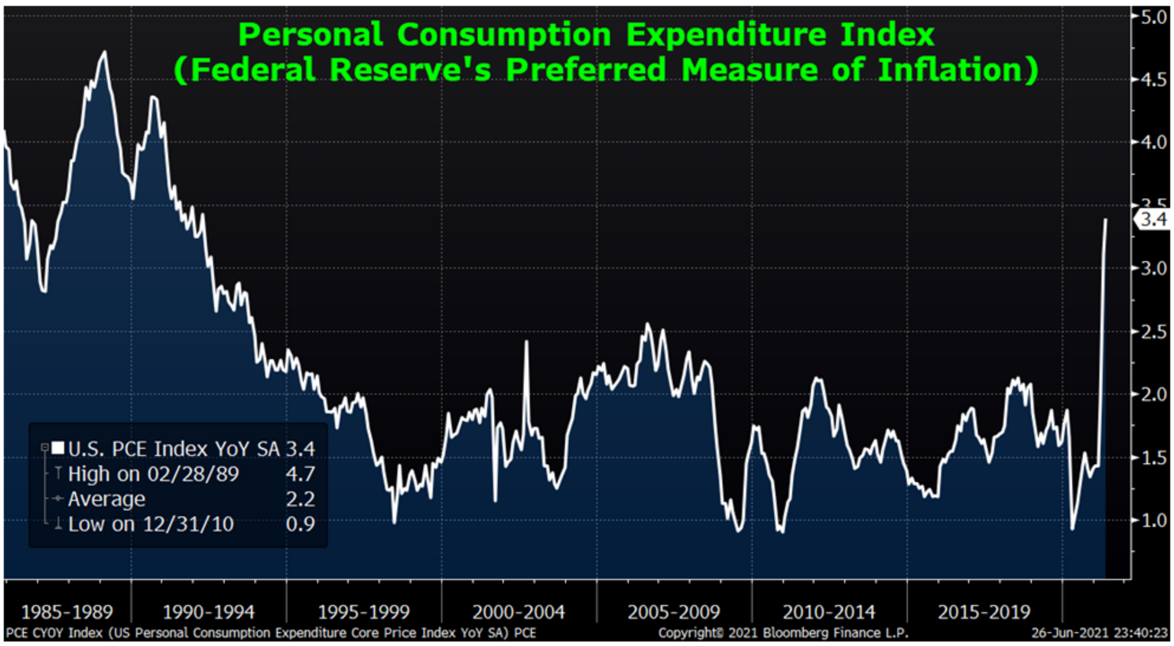
The jobs market recovery remained on hold in the latest week, with new filings for unemployment benefits for the period ended June 19 coming in at a seasonally adjusted 411,000, down 7,000 from the week prior, but below expectations. Continuing claims filed through state programs tumbled by 144,000 to 3.39 million, a pandemic low, though there have been more than 84 million jobless applications filed over the last 66 weeks.

… stable prices,…

THE PRUDENT SPECULATOR

FED WILL TOLERATE INFLATION MODERATELY > 2%

The Federal Reserve's preferred gauge of inflation, the Personal Consumption Expenditure (PCE), jumped in May to 3.4%, above the 2.0% target, though Jerome H. Powell & Co. have given themselves a runway to let the economy run hotter before hiking interest rates.

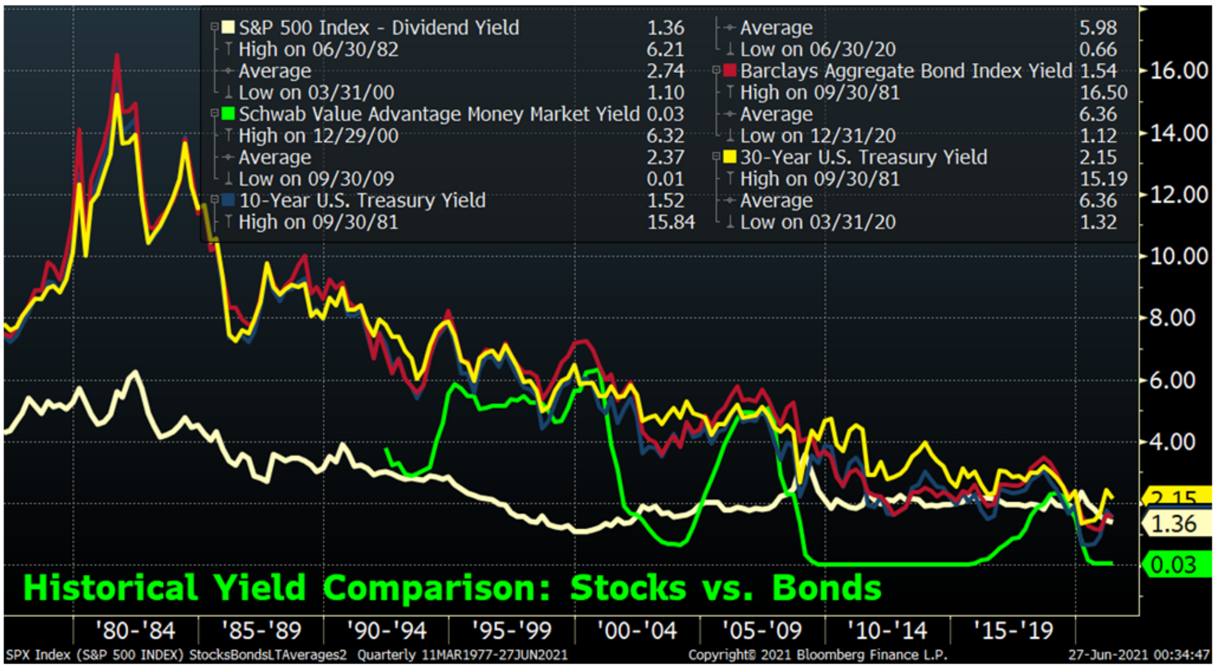


…and moderate long-term interest rates,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.36%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 45 times the yield of a "generous" Money Market Fund**!



…so we expect plenty of equity market volatility,…

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%	988	27	3.4	3/23/2020	6/25/2021
17.5%	67.6%	578	39	2.3	3/23/2020	6/25/2021
15.0%	67.2%	561	45	2.0	3/23/2020	6/25/2021
12.5%	44.7%	337	72	1.3	3/23/2020	6/25/2021
10.0%	35.2%	247	98	0.9	3/23/2020	6/25/2021
7.5%	23.7%	149	157	0.6	9/23/2020	6/25/2021
5.0%	14.8%	73	306	0.3	10/30/2020	6/25/2021

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 6.25.21. 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 05.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

… as changes in the current highly accommodative monetary policy stance are contemplated, even as a review of market history shows that the so-called Fed Taper Tantrum in 2013 and actual reduction of the Fed's bond buying starting in 2014 coincided with a fantastic two-year stretch for stocks.

THE PRUDENT SPECULATOR

TAPER TANTRUM: LONG-TERM TREASURIES, YES, BUT STOCKS, NOT SO MUCH

With folks trying to figure out when the Federal Reserve might become less accommodative, pundits have been offering reminders like, "In 2013, the Fed's previous taper announcement drove markets into a tantrum and led long-term debt to sell off." Memories become fuzzy with time and the yield on the 10-Year U.S. Treasury did soar from 1.63% on 5.22.13 to 3.02% on 12.31.13, due to fears about Fed tightening, but stocks performed very well in 2013 and 2014, even as the actual tapering of bond purchases began in January 2014. Indeed, **the S&P 500 returned 50%** and had only three downturns of 5% or greater during the period, half of the three-per-year average for such setbacks.

Obviously, anything can happen in the near term and we respect that bi-partisan DC progress on massive infrastructure spending legislation contributed to the nice rebound last week, so headlines out of Washington, along with geopolitical events and COVID-19 developments will continue to influence equity prices. But, we remain of the belief that for those who share our long-term time horizon, stocks are very attractive, given the very favorable interest rate climate,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

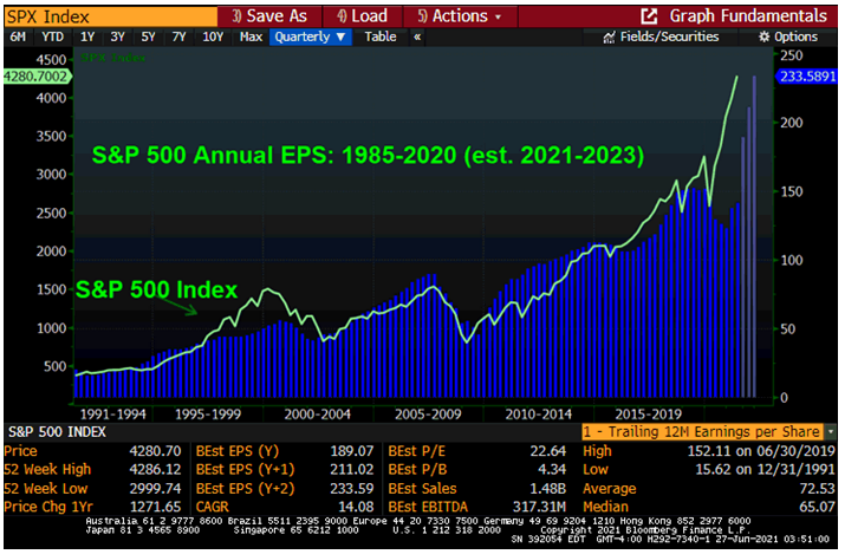
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.30% vs. 1.52% 10-Year) and generous S&P 500 dividend yield of 1.36%.

…and the likelihood for substantial corporate earnings growth this year and next.

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	$55.92	$210.43
9/30/2022	$53.75	$203.46
6/30/2022	$50.79	$196.47
3/31/2022	$49.97	$189.86
12/31/2021	$48.95	$187.30
9/30/2021	$46.76	$176.53
6/30/2021	$44.18	$167.67
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 6.24.21

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

Also adding to the equity market cheer last week, another round of financial stress tests were completed on large U.S. banks. The stress tests began after the financial crisis of 2008-09. The tests gauge a bank's ability to maintain strong capital levels and keep lending to businesses and households during a severe recession. The Fed released in its statement last week that in a worst-case scenario, featuring a severe global recession in which the U.S. sees double-digit unemployment, the 23 large banks would collectively lose more than $470 billion, and their capital ratios would decline to 10.6%. However, this level is still more than double their minimum requirements.

The stress tests are normally run once a year, but because of the COVID-19 pandemic, the Federal Reserve added a second test, along with limiting dividend increases and temporarily halting share buybacks. With the positive outcome of the latest round of tests, the way seems to be paved for larger U.S. banks to be able to boost payouts to investors starting next month. We are expecting to see a wave of releases, beginning anytime, with the announcement of upcoming dividend hikes and increased share repurchase programs.

Federal Reserve Vice Chairman Randal Quarles commented "Over the past year, the Federal Reserve has run three stress tests with several different hypothetical recessions, and all have confirmed that the banking system is strongly positioned to support the ongoing recovery."

We think the upcoming announcements are a positive for our financial holdings, and with interest rates likely to move higher over the next few years, the likes of **JPMorgan Chase** (JPM – $154.05), **Citigroup** (C – $71.55), **Goldman Sachs** (GS – $368.77) and **Morgan Stanley** (MS – $88.40) are even more attractive. Target Prices are as follows: JPM – $176; C – $102; GS – $399 & MS – $97.

Nutrien Ltd (NTR – $61.07) saw its share price rise by more than 5% last week after the crop input and services concern raised its first-half of 2021 guidance. The company said that the increase comes on the heals of strength in the global fertilizer markets and overall strong operational results for the firm.

First-half 2021 adjusted EPS is now expected to be $2.30 to $2.50, up significantly from the previous guidance of $2.00 to $2.20 (first quarter adjusted net earnings per share was $0.29). Management said it would provide full-year guidance during its upcoming Q2 earnings call, currently scheduled for August 10. Also, the company said that in response to continued tightening in global potash market conditions, NTR is planning to produce a further half a million tons of potash, which is in addition to the half a million tons increase announced on June 7. The majority of the increased production is expected to occur in the fourth quarter, with some of these additional tons expected to be sold in early 2022.

NTR CEO Mayo Schmidt stated, "The quality and breadth of our integrated network combined with unparalleled expertise in potash mining and an exceptional transportation and logistics system helps ensure our customers have the crop inputs they need to feed a growing world and drives tremendous shareholder value. With continued strength in global agriculture and crop input markets, we are raising guidance and expanding our potash production by a total of one million tonnes to ensure farmers get the potash they need."

We continue to like that Nutrien has a strong balance sheet and attractive dividend (3.0% current yield). The company also has scale offered by a large retail presence with over 2,000 locations in seven countries, diversification across the three major crop nutrients and a strategy of selling directly to farmers. We remain constructive on the long-term global agriculture story and we think NTR is a beneficiary. We have adjusted our Target Price upward to $75.

Shares of **Biogen** (BIIB – $347.93) gave back a chunk of recent gains last week, in large part on news that competitor Eli Lilly had received breakthrough therapy designation from the FDA for its Alzheimer's disease therapy called donanemab. The designation offers the same fast-track consideration for approval that Biogen's Aduhelm treatment received earlier this month, which allows the FDA to conditionally approve drugs without proof of a clinical benefit so long as they reach predetermined surrogate endpoints. Of course, much objection has been made public by FDA Advisory panelists (with several resignations) in recent weeks about the precedence these decisions set for future drugs in the space, even as the Lilly drug has yet to receive approval, and Biogen's Aduhelm is subject to post-approval clinical trial to verify the drug's clinical benefit.

Competition for Aduhelm looms as the FDA's recent actions seemingly open the floodgates for all comers with a possible Alzheimer's therapy. However, we note that Lilly's donanemab currently has safety data on less than 500 subjects versus a panel of 3,000 subjects for Aduhelm, although studies continue. Pricing dynamics, willingness for physicians to prescribe and insurer's (including Medicare) willingness to cover these drugs all factor into significant internal debate about our Biogen holdings. We continue to warn that Biogen investors must be braced for volatility as the situation continues to evolve, although our exposure to the stock generally remains relatively small.

Nevertheless, the Alzheimer's opportunity is enormous, given the number of folks afflicted with the disease, the aging of the population and the desperation families have for any treatment that might bring some relief. On the other hand, looming pressure from generics in the coming years, or sooner given the court victory last year for Mylan Inc. (now joined with Pfizer's Upjohn) related to Biogen's blockbuster Multiple Sclerosis drug Tecfidera, and potential competition from Novartis for its spinal muscular atrophy treatment Spinraza, raise the importance of the company's neurological effort. Our Target Price for BIIB now stands at $457.

Formerly known as Total, the French integrated energy giant changed its name and ticker symbol at the end of May to **TotalEnergies** (TTE – $47.59) to more fully encompass its transition toward renewable energy solutions. CEO Patrick Pouyanné declared, "Energy is life. We all need it and it's a source of progress. So today, to contribute to the sustainable development of the planet facing the climate challenge, we are moving forward, together, towards new energies. Energy is reinventing itself, and this energy journey is ours. Our ambition is to be a world-class player in the energy transition. That is why Total is transforming and becoming TotalEnergies."

TTE has made meaningful strides of late to incorporate renewable energies in its business mix and anticipates these sources will allow it to reach net-zero emissions by 2050. While the company's core fossil fuel business is still competitive with lower production costs than many large peers, we appreciate the investments it has made towards solar and wind, as well as battery storage. Recently, agreements have been entered to develop an 800-megawatt (MW) solar plant in Al Kharsaah, Qatar, designed to meet around 10% of that country's electricity peak demand. The company has also launched the largest battery storage project in France, with an overall capacity of 61 megawatt-hours to be rolled out in two phases. Shares are up over 60% in terms of price since the release of the vaccine news in November 2020, but still offer a solid value at 10.6 times fiscal 2021 EPS estimates. The dividend is also attractive, boasting a net yield of 5.6%. Our Target Price now stands at $77 and we think that TTE will continue to generate plenty of cash flow from its legacy businesses to fuel its ongoing foray into renewables.

German industrial conglomerate **Siemens AG** (SIEGY – $81.86) had its Capital Markets Day on June 24, where the company boosted its profit target and announced a sizable stock buyback.

CEO Roland Busch opened the day of presentations by stating, "I've been with the company for almost 30 years and the last 10 years on the Managing Board. During that time, I've experienced many market shifts from different perspectives while working for different Siemens businesses with different countries. But nothing compares with the speed and scale of transformation that we are seeing in our markets right now."

"[The transition is of] pivotal importance for Siemens and why Siemens is uniquely positioned to accelerate high-value growth. Because we are a focused technology company addressing highly attractive growth markets with our global footprint. Because we can empower our customers to master their digital transformation and sustainability challenges with our technologies. Because we can combine the real and the digital worlds like no other company can. Because we are pursuing a clear focus on profit, cash, value creation, stringent capital allocation and execution. And finally, because we have the right strategy, the right team at the right time," Dr. Busch continued.

Dr. Busch highlighted the company's digital transformation and smart infrastructure project involvement, as well as SIEGY's involvement with BioNTech to ramp the COVID-19 vaccine production and longstanding partnerships with the U.S. and China in their efforts to be carbon-neutral by 2060 (and reaching peak emissions by 2030). Siemens is targeting 4% to 5% growth rates for "addressable markets" in the Smart Infrastructure, Digital Industries, Mobility and Siemens Healthineers businesses. Siemens also has a hand in the 5G communications network build-out and electric vehicles (with Mercedes Benz).

Siemens continues to generate substantial free cash flow and is "striving for a progressive dividend" policy going forward. Over the past five years, SIEGY has returned 21 billion euros to shareholders via share buybacks and dividends, and has completed 2.4 billion euros of 3.0 billion euros in the current share buyback authorization. The company will complete the current buyback program in fiscal 2021 and added a new 3.0 billion euros to the program for 2022 to 2026. Siemens expects earnings growth in the high single-digits for fiscal 2021 with revenue growth between 5% and 7%. Analysts project earnings per share will grow from $2.81 in fiscal 2020 to more than $5.15 by fiscal 2023, which pencils out to a 2023 P/E ratio of 16. Siemens has had some special distributions lately that have inflated the dividend yield, but we expect the ongoing net yield to be around 2%. We believe the global pandemic recovery will result in some near-term choppiness that's worth enduring, while we like SIEGY's global footprint and long backlog. Our Target Price for SIEGY has been boosted to $100.

Shares of **FedEx** (FDX – $291.95) slipped 4% (though they have gained 13% this year) after the company reported a fiscal Q4 2021 that topped analyst estimates by a smidge. The shipper earned $5.01 per share (vs. $5.00 est.) and had revenue of $22.57 billion (vs. $21.49 billion). The company also offered fiscal 2022 guidance, which underwhelmed due to management comments on cost increases. FDX expects EPS for 2022 between $20.50 and $21.50 and capital expenditures around $7.2 billion, compared with $5.9 billion for 2021.

CEO Fred Smith said, “The strategies we’ve executed over the last several years were carefully developed and have been executed at a high level with great success overall. As we’ve mentioned previously, the pandemic simply brought many of the market trends, which informed our strategies forward. Brie will be more specific about these trends in a moment. As reported, FedEx revenues for FY ’21 were $84 billion, and we project FY ’22 revenues over $90 billion. We believe FedEx margins will continue to improve this fiscal year. However, as Raj will cover momentarily, the labor market in the U.S. over the last several months has been quite challenging, adversely affecting hiring and leading to significant reengineering of parts of our networks to deal with the lack of these resources. And while the situation has begun to abate, delivering a successful peak season when we anticipate significant year-over-year volume increases will require additional flexibility and creativity on the part of our management, staff and frontline team members while maintaining our safety above all culture. To handle future ground volumes, we are significantly increasing capacity to deliver both great service and improved financial results. This summer, we are intently focused on improving network and delivery operations prior to the volume surge in the fall. There’s great focus on revenue quality at FedEx. However, our focus solely on yields does not give a complete picture of our profit upside.”

COO Raj Subramaniam added, “In fiscal 2022, we’ll continue to deliver on our strategy on e-commerce, operational excellence and digital innovation as we execute on the following key initiatives. First, we expect to substantially increase capacity for this peak by investing in FedEx Ground’s infrastructure with the addition of 16 new automated facilities and the implementation of nearly 100 expansion projects at existing operations and key technological enhancements. Second, we will complete the air network integration in early calendar year 2022, which will bring the physical TNT network integration to a close and provides the inflection point for long-term profit improvement in Europe. Next, we are exercising existing options to purchase 20 additional 767Fs, 10 for delivery in fiscal year ’24 and 10 for delivery in fiscal year ’24 and 10 for delivery in fiscal year ’25 as we continue to modernize our fleet and improve service to our customers. And we finally continue to identify areas to adapt, collaborate and utilize different elements of our global network to increase efficiency and reduce cost to serve.”

CFO Mike Lenz said, “We are adding shareholder value by driving profitable revenue growth, expanding margins, generating strong free cash flow, focusing capital spending into the greatest areas of return, strengthening our balance sheet and improving cash return to shareholders. Based on record fourth quarter results we just covered and the future strategies we have in place, I can say with confidence that we fully expect FedEx to continue delivering sustainable and superior financial returns in the future.”

The FDX benefit from the online spending boom has been dampened in part by the tight labor market, which has impacted FedEx’s ability to achieve service commitments and handle packages. Looking ahead, management expects labor costs to rise as the company funds incentive compensation programs to attract and retain talent. FDX also expects to open 16 new automated facilities next fiscal year and implement more than 100 expansion projects. The FedEx fleet will grow by 20 Boeing 767-300F’s and the physical integration of the TNT network in Europe is finally expected to conclude in the next twelve months. We think FDX shares remain inexpensive. With nearly $21 of earnings expected in fiscal 2022 and $25 in 2024, the forward P/E ratios are 14x and 12x, respectively, while the quarterly dividend was just hiked to $0.75 per share. We appreciate that FDX has been using its free cash flow to grow the business, manage its debt load in its infrastructure-intensive business and make fleet changes. Our Target Price for FDX has been hiked to $371.