Market Commentary Monday, July 5, 2021

July 4, 2021

EXECUTIVE SUMMARY

Week in Review – Record Highs for the Dow and S&P 500; Growth Beats Value
Econ News – Strong Jobs Report and Other Healthy Statistics, But Near-Term Growth Outlook Weakens a Bit
Fed Speak – Disparate Opinions
Interest Rates – Stocks Perform Fine, on Average, Whether the 10-Year U.S. Treasury Yield is Rising or Falling
Inflation – Stocks Perform Fine, on Average, Whether or not Consumer Prices are Elevated
Volatility – Ups and Downs are Very Much Normal
Sentiment – Folks Still Loving Fixed Income; Neutral Fear/Greed Indicator; AAII Bulls Rise
Stock News – Updates on OGN, MRK, IBM, MU & AYI

Market Review

We hope that everyone had a celebratory Independence Day!

Having emailed the July edition of *The Prudent Speculator* on Friday evening, our Holiday missive is a bit shorter than usual, as volatility was relatively light in the latest trading week. Happily, the equity markets moved higher, with both the Dow Jones Industrial Average and the S&P 500 now standing at record highs, even as the rally over the past five days was led by more expensively priced stocks,…

THE PRUDENT SPECULATOR

4TH OF JULY WEEK ENDS ON A HIGH NOTE

The tug of war between Value and Growth shifted back toward more expensively priced stocks over Independence Day Week as interest rates fell, with stocks of most stripes ending in the black.

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
0.02	-3.18	-0.10	1.89	2.55	8.87	7.13	13.49	11.99	Bloomberg Barclays Global-Aggregate Bond
0.54	-1.48	-0.37	-0.86	-0.33	4.83	8.35	17.16	15.98	Bloomberg Barclays US Aggregate Bond
1.06	14.76	33.08	38.00	37.37	92.11	35.82	53.23	117.67	Dow Jones Industrial Average
0.14	16.07	36.17	42.86	42.19	95.90	33.25	44.32	80.48	New York Stock Exchange Composite
2.22	14.18	32.54	38.34	42.40	112.68	74.37	94.18	187.75	Russell 3000 Growth
0.30	**18.63**	**40.52**	**48.87**	**46.39**	96.40	**32.03**	**42.43**	**77.42**	**Russell 3000 Value**
1.27	16.34	36.37	43.35	44.34	105.73	53.78	68.60	129.53	Russell 3000
0.69	20.32	43.40	54.33	51.56	116.84	46.31	59.18	108.43	S&P 500 Equal Weighted
1.71	16.75	34.50	40.20	41.23	98.68	51.70	68.77	127.79	S&P 500
2.86	16.18	32.66	38.31	41.66	107.61	67.04	88.42	171.92	S&P 500 Growth
0.44	**17.36**	**37.11**	**42.85**	**40.33**	86.44	**33.38**	**46.15**	**81.92**	**S&P 500 Value**
2.71	14.31	34.09	40.78	42.81	117.67	57.45	65.94	140.10	S&P 500 Pure Growth
-0.96	**27.67**	**58.01**	**75.62**	**67.80**	135.92	**25.91**	**28.40**	**71.72**	**S&P 500 Pure Value**

As of 07.02.21. Source Kovitz using data from Bloomberg

…and the Value vs. Growth horse race continuing to be tied seemingly to movements in the 10-Year Treasury yield.

THE PRUDENT SPECULATOR

10-YEAR YIELDS SINK IN LATEST WEEK

The volatility in the Treasury market continued in the latest week as, despite generally robust economic statistics, the benchmark U.S. government bond rallied in price, driving the yield down from 1.52% to 1.42%, adding to the appeal of equities from where we sit.

With the understanding that many factors influence the financial markets, one might argue that the enthusiasm for Treasuries last week was surprising, given the better-than-expected Employment Situation Report from the U.S. Bureau of Labor Statistics. After all, the most important economic statistic of the month saw more jobs created than expected,…

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BIG INCREASE IN JOBS, AND BETTER-THAN-EXPECTED

Economists were looking for a huge gain of 706,000 payrolls, so the increase of 850,000 in June was much better than expected, though 188,000 of the jobs were government-related. The resurgent leisure and hospitality sector accounted for 343,000 of the increase, and employers are having to raise wages in order to fill positions as early retirements, lack of child care, virus fears and Uncle Sam's largesse have kept many folks from returning to work.

…which would seem to suggest a modestly more favorable outlook for GDP growth, especially with initial filings for unemployment benefits falling to a new pandemic low.

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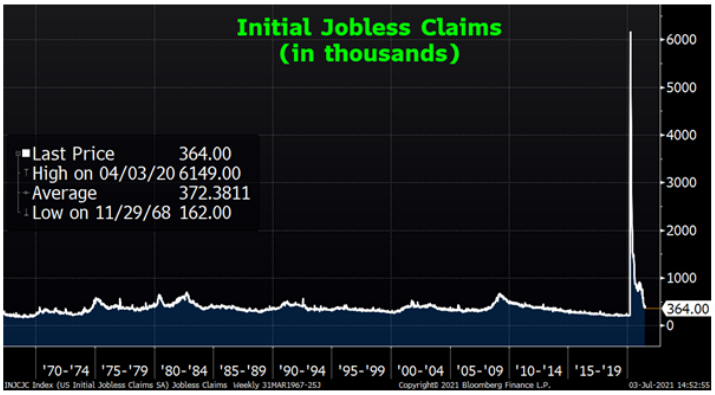
LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW VAST IMPROVEMENT



Even with a terrific number of new jobs created, the jobless rate for June ticked up to 5.9% from 5.8% the month prior as more folks were looking for work. Of course, 14 months ago, the unemployment rate hit a record 14.8%, so the labor situation has improved considerably, and first-time filings for unemployment benefits in the latest week dipped to 364,000, a new pandemic low.

However, the unemployment rate ticked up, while the latest forward-looking read on the health of the manufacturing sector pulled back a tad to a still-extraordinarily-strong number…

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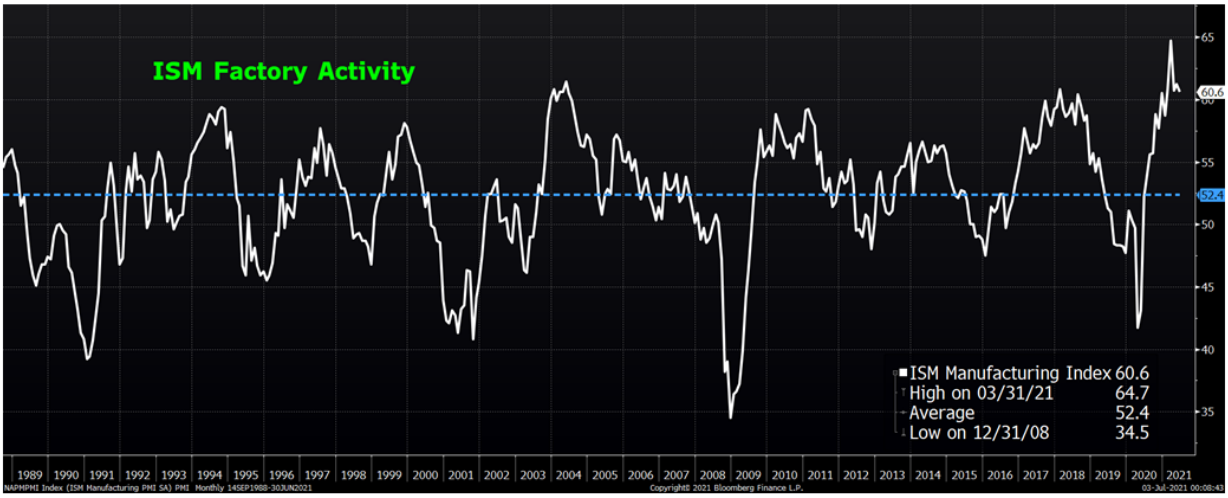
ISM MANUFACTURING INCHES DOWN: 5.0% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in a bit weaker-than-expected at 60.6 in June, down from a reading of 61.2 in May and residing at a level well above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 5.0% increase in real gross domestic product (GDP) on an annualized basis."



…but the latest housing statistics were surprisingly strong,…

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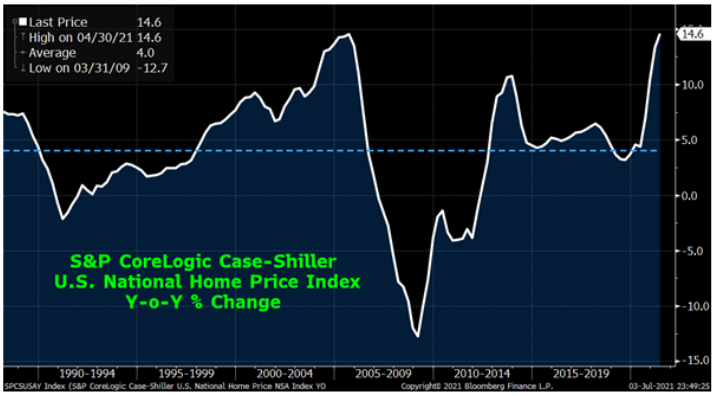
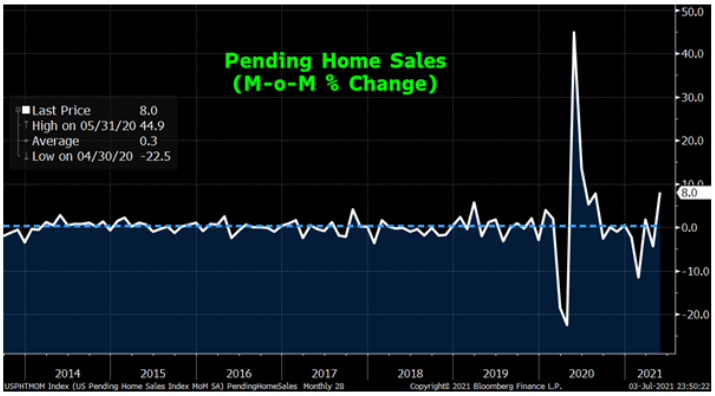
STRONG HOUSING MARKET





The latest reading on home prices soared in April, with the S&P CoreLogic Case-Shiller nationwide index jumping 8.4% on a year-over-year basis, the fastest increase on the more-than-30-year record as buyer demand continued to outstrip supply. And, despite those rising prices and tight inventory, there was an 8.0% increase in home sale contract signings during May, much better than the 1.0% decrease expected by economists.

…as was the much-better-than-expected Consumer Confidence report, with a stumble in auto sales explained mostly by tight supply and not lack of demand.

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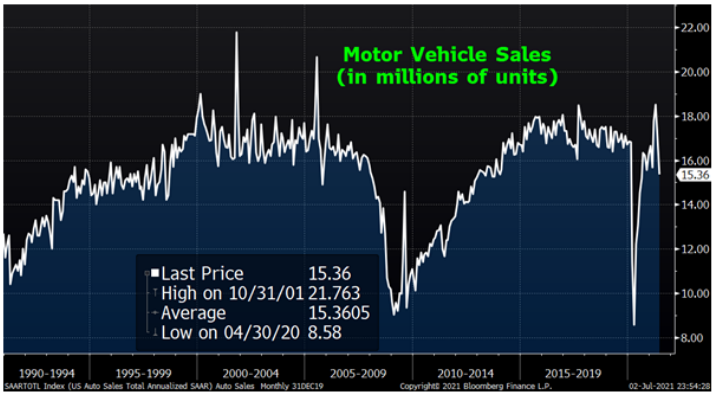
STRONG READINGS ON THE HEALTH OF THE CONSUMER



Consumer confidence, per data from the Conference Board, soared to a pandemic high in June, jumping to 127.3, up from a revised 120.0 in May and well above expectations. Meanwhile, the ongoing shortage of semiconductors led to a big drop in dealer inventories, so much so that sales of cars and trucks skidded in June to a seasonally adjusted annualized rate of 15.4 million units, according to Wards Automotive Group.

All that said, we respect that the latest Q2 GDP forecast from the Atlanta Fed pulled back a bit to 7.8% from 8.3% a week ago,…

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 7.8% increase in Q2 2021 GDP on an annualized basis.

…while Federal Reserve projections suggest that the recent inflationary spike will be transitory, with Chair Jerome H. Powell recently stating, “A pretty substantial part — or perhaps all — of the overshoot in inflation comes from categories that are directly affected by the reopening of the economy.” Federal Reserve Bank of New York President John C. Williams echoed that view, saying, “You could see inflation coming in lower than expected.”

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

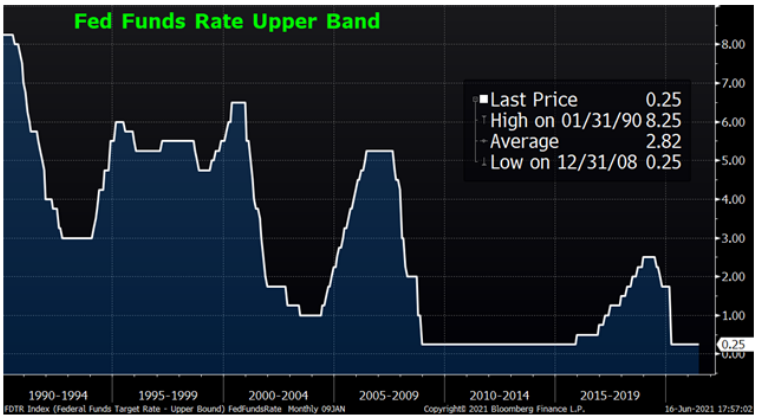
Of course, there is plenty of disparate thinking at the Fed, as evidenced by the latest projections for the timing of interest rate hikes, with St. Louis Fed President James Bullard recently asserting, "This is a volatile environment; we've got upside inflation risk here. Creating some optionality for the committee might be really useful here, and that will be part of the taper debate going forward." Dallas Fed President Robert S. Kaplan also argued for removing some of the monetary policy accommodation "sooner rather than later."

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 month 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 in 2023, especially as 15 of the 17 longer-run estimates are below the average since 1990.



Source: Bloomberg

Given that even the Fed hardly is sure of the path of the economy or the pace and timing of an eventual tapering of its bond buying and potential hikes in the Federal Funds rate, we must be braced for fixed income and equity market volatility. But this is nothing new, as no one can predict the future, so we like that whether government bond yields are rising or falling, equities, led by Value, have enjoyed very good returns…

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

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

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

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

…while the same can be said, again on average, whether current inflationary pressures prove to be transitory.

Inflation Jumps to 13-Year High

May price rise was 5% as the economic rebound from virus lockdowns accelerated

By Gwynn Guilford

The U.S. economy's rebound from the pandemic is driving the biggest surge in inflation in nearly 13 years, with consumer prices rising in May by 5% from a year ago.

The Labor Department said last month's increase in the consumer-price index was the largest since August 2008, when the reading rose 5.4%. The core-price index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before—the largest increase for that reading since June 1992.

Consumers are seeing higher prices for many of their purchases, particularly big-ticket items such as vehicles. Prices for used cars and trucks leapt 7.3% from the previous month, driving one-third of the rise in the overall index. The indexes for furniture, airline fares and apparel also rose sharply in May.

A separate reading showed the U.S. labor market continued to heal from the pandemic, with initial claims for unemployment benefits falling to another pandemic low.

Stocks edged higher on the inflation and labor-market news. The S&P 500 set a closing record, while both the Nasdaq Composite and the Dow Jones Industrial Average are within 1% of new highs.

May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

Overall prices jumped at a 9.7% annualized rate over the three months ended in May. On a month-to-month basis, overall prices rose a seasonally adjusted 0.6% and core

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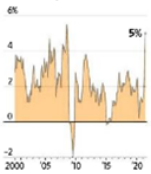
◆ Jobless claims drop, but hiring falls short..... A2
◆ Heard on the Street: Step into inflation's looking-glass..... B10

Consumer-price index



Note: Seasonally adjusted; percentage change from a year ago
Source: Labor Department

While transitory factors appear to continue to be the cause, the consumer price index jumped in May by 5.0% on a year-over-year basis...which if history is a guide bodes well for equity prices, especially Value stocks, over the next 3, 6 and 12 months!

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.3%	8.3%	6.5%	19.3%	15.1%
Geometric Average	3.6%	2.5%	6.9%	4.7%	17.2%	12.0%
Median	4.4%	3.5%	6.7%	4.8%	18.8%	15.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-30.3%	-48.0%
Count	156	156	156	156	156	156

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 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	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 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	2.9%	7.5%	5.8%	14.7%	11.2%
Geometric Average	3.2%	2.4%	6.6%	5.0%	12.9%	9.5%
Median	4.0%	3.3%	8.1%	6.3%	16.9%	12.6%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-46.3%	-36.6%	-52.2%	-39.9%
Count	610	610	607	607	601	601

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 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.

To be sure, economic strength, inflation and shifts in Federal Reserve policy are not the only issues with which investors must contend. Developments on Capitol Hill, geopolitical events and the ongoing COVID-19 battle all remain uncertainties that could send equity prices gyrating in more volatile directions, but we continue to believe that the secret to success in stocks is not to get scared out of them,…

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	3/23/2020	7/2/2021	94.53%	BULL
Average Drop		**-18.35%**		**Average Gain**		**42.32%**	

SOURCE: Kovitz using data from Bloomberg

The five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is no doubt still fresh on the mind of investors, given that the S&P 500 plunged 33.9%. Of course, stocks have again rebounded, with the tremendous volatility last year representing the 33rd pullback of 10% or more without an intervening 10% recovery since the launch of *The Prudent Speculator* more than 44 years ago. Happily, the returns in the winning periods have dwarfed the losses!

…as every downturn thus far has been overcome in the fullness of time, so much so that equities have proved to be a very rewarding asset class.

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%	112.6%	988	27	3.4	3/23/2020	7/2/2021
17.5%	67.7%	578	39	2.3	3/23/2020	7/2/2021
15.0%	67.3%	562	45	2.0	3/23/2020	7/2/2021
12.5%	44.8%	337	72	1.3	3/23/2020	7/2/2021
10.0%	35.2%	247	98	0.9	3/23/2020	7/2/2021
7.5%	23.7%	149	157	0.6	9/23/2020	7/2/2021
5.0%	14.8%	73	306	0.3	10/30/2020	7/2/2021

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 7.2.21. 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

And, despite the only problem with market timing being getting the timing right, we know that many investors do not share our enthusiasm toward stocks, as bonds, despite microscopic interest rates, remain shockingly popular,…

THE PRUDENT SPECULATOR

INFLOWS CONTINUE INTO BOND FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	6/23/2021	6/16/2021	6/9/2021	6/2/2021	5/26/2021
Total Equity	-1,993	29,345	-12,977	4,564	8,279
Domestic	-6,293	21,313	-13,643	815	2,953
World	4,300	8,032	666	3,749	5,327
Hybrid	-1,698	-916	107	-366	430
Total Bond	8,811	9,810	13,571	10,386	10,402
Taxable	6,174	7,165	10,280	9,011	7,792
Municipal	2,637	2,645	3,292	1,375	2,610
Commodities	-305	537	346	1,445	1,719
Total	4,815	38,776	1,048	16,029	20,829

Source: Investment Company Institute

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

Investment Company Institute

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

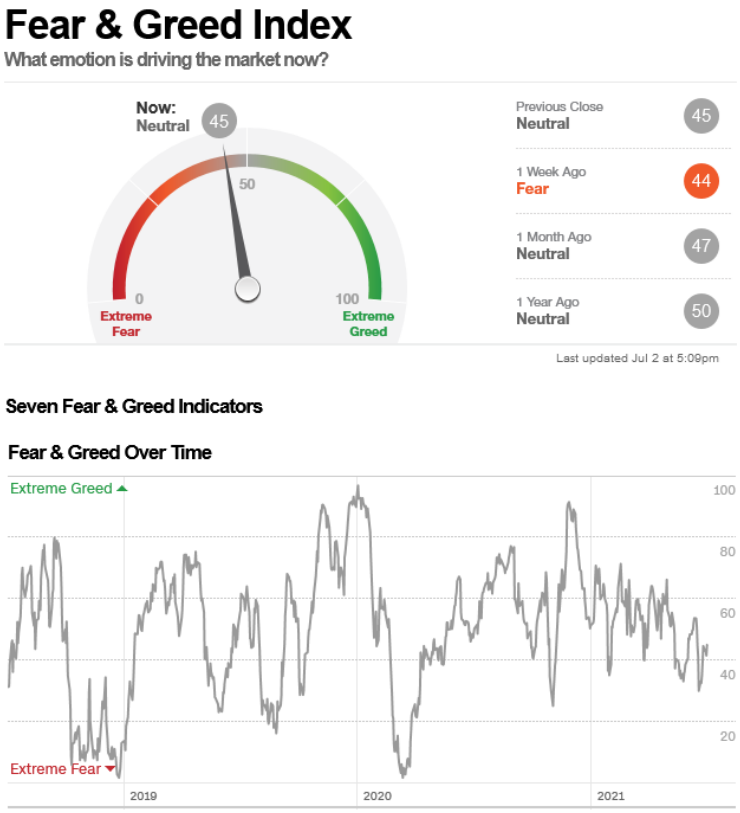
Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	25,064
Mar-15	-1,494	4,905	Nov-16	22,993	-13,289	Jul-18	1,007	22,495	Mar-20	-7,485	-273,714
Apr-15	-34,681	11,027	Dec-16	18,859	-4,142	Aug-18	-6,660	17,219	Apr-20	2,664	14,672
May-15	-17,287	5,010	Jan-17	5,097	31,037	Sep-18	886	18,526	May-20	-20,929	73,166
Jun-15	-7,023	6,324	Feb-17	17,613	33,991	Oct-18	-9,657	-27,700	Jun-20	-24,819	100,103
Jul-15	-14,864	-1,255	Mar-17	9,411	36,562	Nov-18	2,783	-7,459	Jul-20	-46,524	98,490
Aug-15	-18,569	-18,122	Apr-17	-8,266	22,064	Dec-18	-28,953	-49,512	Aug-20	-57,594	84,113
Sep-15	-4,725	-10,849	May-17	-10,725	33,070	Jan-19	-21,195	29,308	Sep-20	-28,900	51,000
Oct-15	-807	15,397	Jun-17	-7,944	29,372	Feb-19	3,632	45,138	Oct-20	-52,484	63,918
Nov-15	654	-5,573	Jul-17	-12,518	29,139	Mar-19	-3,654	38,412	Nov-20	41,143	58,854
Dec-15	476	-25,043	Aug-17	-22,771	25,078	Apr-19	-5,307	40,565	Dec-20	-34,003	76,186
Jan-16	-27,222	7,686	Sep-17	-9,775	33,440	May-19	-24,652	21,332	Jan-21	-37,318	93,758
Feb-16	-9,108	11,915	Oct-17	3,166	36,110	Jun-19	-11,997	39,771	Feb-21	45,116	71,788
Mar-16	7,711	29,296	Nov-17	-4,417	19,788	Jul-19	-7,889	44,811	Mar-21	53,232	51,291
Apr-16	-12,610	22,114	Dec-17	-9,054	19,491	Aug-19	-29,908	22,304	Apr-21	-484	79,728
May-16	-14,252	16,925	Jan-18	10,778	46,287	Sep-19	-4,650	38,482	May-21	8,308	39,542
Jun-16	-15,530	16,623	Feb-18	-41,444	2,706	Oct-19	-24,645	43,187			
Jul-16	292	33,575	Mar-18	-22,152	14,148	Nov-19	-11,716	44,480			
Aug-16	-9,956	30,859	Apr-18	-7,403	24,176	Dec-19	-27,500	50,733	Totals:	-719,139	1,898,872

…and one of the real-time sentiment gauges is actually tilted toward Fear and not Greed,…

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…BELOW NEUTRAL DESPITE ALL-TIME HIGHS

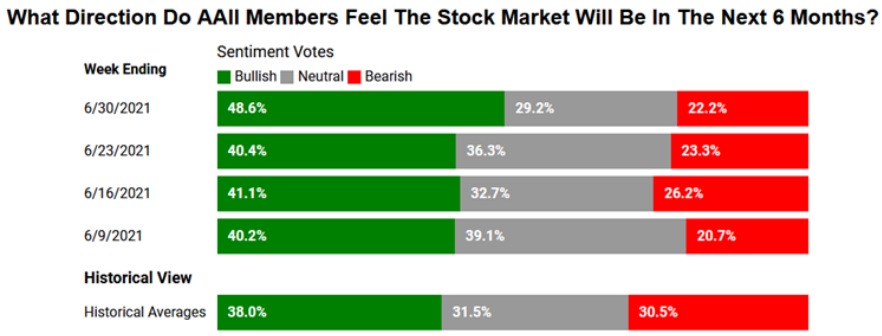


There is still a ton of frothiness in richly valued (or impossible to value) areas of the equity market, but even with the S&P 500 at an all-time high, the *CNNMoney* Fear & Greed Index is tilted more toward worry than optimism. Extreme Fear readings for Stock Price Strength and Stock Price Breadth, along with a Fear tally for Safe Haven Demand offset Extreme Greed measures for Market Momentum and Put and Call Options.

…even as the latest count of Bulls from the American Association of Individual Investors was the highest since April 22.

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULLISHNESS 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	867	0.17%	0.15%	0.50%	0.41%	1.90%	1.64%	4.45%	3.98%
Ten Groupings of 1768 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	173	0.36%	0.33%	0.97%	0.84%	3.87%	3.51%	7.22%	6.45%
3	-7.3	-1.3	177	0.32%	0.29%	1.49%	1.39%	3.29%	2.89%	7.19%	6.55%
4	-1.2	3.0	179	0.06%	0.03%	1.10%	1.01%	3.00%	2.64%	6.35%	5.82%
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	160	0.11%	0.09%	0.32%	0.19%	1.47%	1.23%	4.47%	3.97%
7	12.3	16.7	177	0.20%	0.18%	0.78%	0.68%	2.54%	2.29%	5.27%	4.85%
8	16.7	22.0	180	0.16%	0.14%	0.67%	0.60%	2.01%	1.73%	5.81%	5.39%
9	22.0	29.2	173	0.06%	0.05%	0.34%	0.26%	1.97%	1.69%	4.06%	3.49%
10	29.2	62.9	177	0.29%	0.28%	0.34%	0.27%	1.46%	1.23%	2.63%	2.19%

From 07.31.87 through 7.1.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 8.2-point jump in the number of Bulls in the latest AAII Sentiment Survey released on Wednesday evening, June 30, 2021, was elevated, though the 26.4-point Bull-Bear spread was still in the 9th decile of the historical figures.

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

Shares of **Organon & Co.** (OGN – $30.86) have skidded in price after being spun off from parent **Merck & Co.** (MRK- $78.60) on June 2. The new company contains Merck's women's health, biosimilars and established brands businesses. Management stated earlier this year that it anticipates revenue of $6.1 billion to $6.4 billion for OGN and an operating margin of about 45%. For the time being, we are simply holding the handful of OGN shares we have received as we do not have enough financial information to establish a Target Price.

Two companies better positioned to deliver value to patients and shareholders

	Strategy	Operations	Business Mix	Financial
MERCK INVENTING FOR LIFE	• Merck Research Labs at the forefront of breakthrough science and innovation • Improved focus on key growth pillars	• Reduction of 25%[1] manufacturing sites • Eliminate 50%[1] products • Eliminate 60%[1] SKUs	• Key growth pillars drive ~90% of revenue post-spin • Broad portfolio encompassing Oncology, Vaccines, Hospital & Specialty, and Animal Health	• Faster revenue growth (up to 1% CAGR[2] improvement) • Incremental $1.5B in operating efficiencies by 2024 (including $500M in 2021) • Operating margin >42% in 2024 • Financial capacity for BD, including $9B special dividend
ORGANON	• Leader in Women's Health with strong growth • Growing biosimilars franchise • Broad portfolio of established brands with strong cash flows, expected to have modest LOE risk following 2021	• Global scale and differentiated capabilities • Focus on lifecycle management and BD strategy • Extensive planning and preparation for independent operations	• Global scale and capabilities enable opportunity to be a commercialization and distribution partner of choice	• Global growth business (low-to mid-single digit revenue growth off 2021 base) • Significant opportunity in women's health and biosimilars • Financial capacity to execute on bolt-on BD opportunities

Faster growth of Organon and operational efficiencies gained at Merck post-spinoff drive higher combined Non-GAAP EPS within 12-24 months

1. Organon as a percentage of Human Health; rounded to the nearest 5%
2. 2021 to 2024 CAGR

MERCK

Merck is expected to operate in a much leaner fashion with concentrated areas of focus. Of course, Keytruda becomes a much bigger piece of the Merck revenue engine for the time being as new indications are expected to come online. Also as a result of the spin-off, Merck's gross margins are projected to be higher, but operating margins will take a hit, at least until anticipated expansion in 2024. Our spin-off adjusted Target Price for MRK, which yields 3.3%, is $103.

Jim Whitehurst, heir apparent to the **IBM** (IBM – $140.02) CEO position, stepped down on Friday, sending shares tumbling more than 4.5%. IBM had been on an upward streak following its very-expensive acquisition of Red Hat, as investors were optimistic that the perpetually stuck-in-neutral giant might have turned a corner. The company took on nearly $30 billion in debt to complete the deal in 2019 and Mr. Whitehurst seemed to have significant financial incentive to stay. While he has not departed completely (he's staying on as a Senior Advisor), we suspect Mr. Whitehurst's token title is an effort to help him achieve his incentives, rather than being the guiding light for a new chapter from afar.

Our continued ownership of IBM remains tenuous as our Investment Team has had plenty of spirited debate about the holding. On the one hand, we worry that Mr. Whitehurst is not the only arguably disgruntled employee as IBM has struggled to execute for some time now, suffering

from arrogance, bad leadership decisions and cultural problems. Indeed, it was rumored last week that IBM has been struggling for more than 18 months with its own email migration.

On the other hand, IBM trades at super-cheap multiples compared to other tech companies, though its EPS have been goosed over the years by enormous stock buybacks. And speaking of EPS, current analyst estimates for 2021, 2022 and 2023 stand at $10.93, $12.06 and $13.08, respectively, not bad for a $140 stock, with a 4.7% dividend yield.

We also have the upcoming separation of IBM's Managed Infrastructure Services businesses with which to contend as we determine our willingness to continue to hold our current position in the shares for the long term. For the moment, our Target Price has been trimmed to $170, but with every stock in our portfolios fighting for its spot, IBM is on our watch list.

Micron's (MU – $80.33) fiscal Q3 2021 results were stellar in our view, but shares fell nearly 6% on analyst concerns that pricing may be near its peak. The memory chip maker had sales of $7.42 billion (vs. $7.22 billion est.) and EPS of $1.88 (vs. $1.72 est.). Micron expects Q4 revenue between $8.0 billion and $8.4 billion and adjusted EPS between $2.20 and $2.40. For comparison, MU had revenue of $6.06 billion in Q4 last year and $1.08 of EPS.

CEO Sanjay Mehrotra was positive on the quarter, "Our strong execution enabled us to achieve the largest sequential EPS improvement in our history and to set multiple revenue records. NAND hit record revenue, propelled by record mobile MCP, consumer SSD and client SSD revenues. Our Embedded business exceeded $1 billion for the first time, with record revenue across automotive and industrial markets. We also achieved key technology and product milestones with our industry-leading 1-alpha DRAM and 176-layer NAND, reaching a meaningful portion of our bit production and QLC NAND accounting for a majority of our client SSD bit shipments. We expect DRAM and NAND supply to remain tight into calendar 2022 as the global economy rebounds. The strong demand for memory and storage across the data center, intelligent edge and user devices puts Micron in the best position ever to fully capitalize on these exciting opportunities."

Mr. Mehrotra continued, "Despite shortages across the semiconductor ecosystem in various assembly materials and assembly capacity, Micron delivered record assembly output this quarter which helped fuel our strong revenue performance. Our assembly and test success was the result of a strategic decision we made several years ago to increase our captive footprint and strengthen relationships with suppliers and partners. We successfully mitigated the impacts of the drought in Taiwan with no reduction in our production output. Taiwan's rainy season has begun, bringing with it sufficient water supply to support our manufacturing requirements…"

Looking ahead, Mr. Mehrotra said, "While the pandemic remains a risk factor, calendar 2021 is shaping up to be a strong year, fueled by the macroeconomic recovery, combined with secular drivers, such as AI and 5G, that are creating sustained demand increases across broad end markets. As a result, our expectations for calendar 2021 DRAM and NAND bit growth have increased since our last earnings call, and we now expect calendar 2021 DRAM bit demand growth to be somewhat above 20% and NAND bit demand growth in the mid-30% range. There is currently unmet demand for DRAM and NAND due to end market strength… Turning to

Micron supply. We are targeting to align our long-term bit supply growth CAGR with the industry bit demand growth CAGR across DRAM and NAND. However, we expect year-to-year variability caused by no transition timing. In both DRAM and NAND, we expect our calendar 2021 bit supply growth to be below the industry bit demand growth, and we have used our inventory to add to our bit shipment growth this year."

Micron also jettisoned a fab in Utah to Texas Instruments for $900 million in cash (MU says the economic value of the sale is $1.5 billion), as it winds down production of 3D XPoint technology. In addition, MU repurchased 1.7 million shares in Q3 for $150 million, bringing the total spent on share repurchases since the inception of the repurchase program to $3 billion. Micron has also spent $2 billion to settle convertible notes and expects to continue repurchasing shares in the upcoming quarter. MU shares have retreated a bit from the $95.59 high in April, but we think that the company will continue to execute, propelling earnings well into the future. Analysts expect MU to earn $5.89 per share this year, and more than $11 in each of fiscal years 2022 and 2023. Even though the business has tended to be lumpy, we are content with our current positioning and have raised our Target Price for MU to $119.

Shares of **Acuity Brands** (AYI – $178.73) dimmed last week, falling more than 7% after the lighting and lighting control systems concern reported its fiscal Q3 financial results. We saw the results as strong and headed in the right direction as sales came in 7% above the consensus analyst estimate ($899.7 million vs. $839.8 million). Acuity also announced that it earned $2.77 per share in the period, versus the average analyst estimate of $2.27. Revenue grew by almost 16% versus the year ago period and gross profit margins expanded by 80 basis points.

Despite the sizeable beats on the quarter, analysts and investors seemed to be concerned about management's forecast of gross margins beyond the next 18 months to come in around 42%, when close followers indicated they were looking for 42.5%. The tighter than expected margin outlook wasn't that much of a surprise to us given the spike in input costs we have been seeing in a number of company reports throughout earnings season.

"I am proud of our team for returning the business to growth during the quarter, while also expanding our gross profit margin. The breakout of our newly formed business segments shows that both segments contributed to that improvement," stated Acuity CEO Neil Ashe. "We continue to allocate capital effectively with the acquisition of AMS OSRAM's North American Digital Systems business which will contribute to innovation and long-term growth."

We continue to appreciate the financial flexibility built into Acuity's business model, which allows it to scale with prevailing demand and the opportunistic deployment of capital (during the first nine months of fiscal 2021, AYI repurchased 3.3 million shares of its stock at an average price of $104). We like AYI's product and productivity improvements, and we are optimistic about the several channels for growth the company has on the horizon. We boosted our Target Price on the "disappointing" earnings report to $215.

complete and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.