Market Commentary Monday, July 12, 2021

July 11, 2021

EXECUTIVE SUMMARY

Newsletter Purchases – 4 Buys Across 3 Portfolios
Market Gyrations – Media Explanations Can Turn on a Dime
Econ Data – Mixed Numbers in the Latest Week
Corporate Profits – Q2 Reporting Season Set to Begin
Patience – Time in the Market Trumps Market Timing
Interest Rates – Lower Bond Yields Make Equities, Especially Dividend Payers, More Attractive
Fear – Lots of Money Hiding in Fixed Income
Sentiment – Folks Still Not Very Enthused About Equities
Stock News – Updates on NSC, BIIB, VWAGY & GBX

Market Review

A bit of housekeeping before this week's missive. As discussed in the July edition of *The Prudent Speculator*, we bought 553 shares of **Hewlett Packard Enterprise** (HPE – $14.58) at $14.4558 for Buckingham Portfolio on Wednesday, July 7.

We also added the following to our hypothetical portfolios that day:

Millennium Portfolio
61 **Pfizer** (PFE – $39.61) at $39.22 per share
46 **Timken** (TKR – $80.33) at $77.95 per share

PruFolio
239 **Pinnacle West Capital** (PNW – $83.65) at $83.53 per share

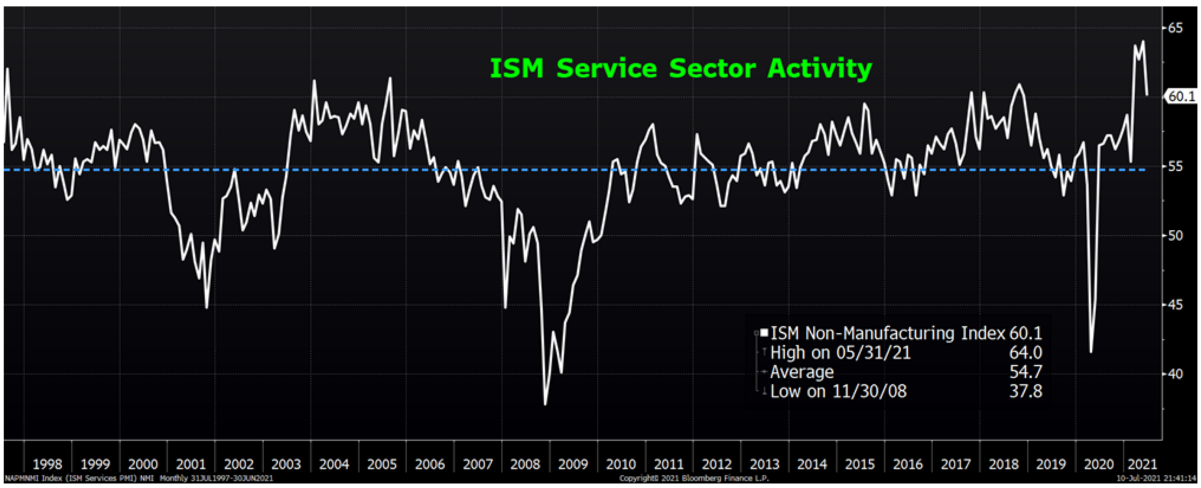
*****
Equities last week offered another reminder of the folly of trying to explain short-term market gyrations. For example, Friday's edition of *The New York Times* told us that the S&P 500 slid as much as 1.6% on Thursday due to "fears of instability" and "anxiety over the bumpy economic recovery." *The Times* quoted one market expert who asserted, "There's growing concern on how robust the economic recovery will be. The virus spread in other countries is starting to suggest we won't have a strong second half of the year."

Certainly, that was not an unreasonable take, given that COVID-19 headlines included rising Delta-variant cases, Pfizer stating that a booster will be needed for its vaccine and the upcoming Tokyo Olympics banning spectators. Also, the latest numbers earlier in the week on the health of the critical services sector came in well below expectations,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING PULLS BACK: 3.8% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector pulled back to a weaker-than-expected 60.1 in June, down from a record high of 64.0 in May. The figure remains one of the best in history, however, and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 3.8% increase in real gross domestic product (GDP) on an annualized basis."



…but the headlines had to be rewritten in Saturday's papers as it was a terrific ending to what had been shaping up as a miserable week for equities, with Friday's big turnaround in Treasury yields,…

THE PRUDENT SPECULATOR

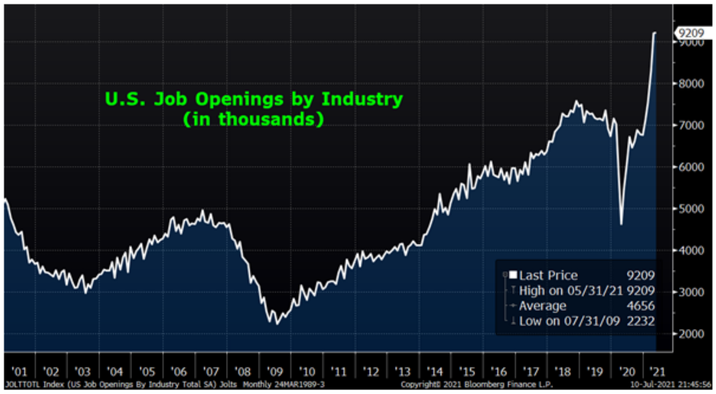
BIG DROP IN THE 10-YEAR YIELD…UNTIL FRIDAY

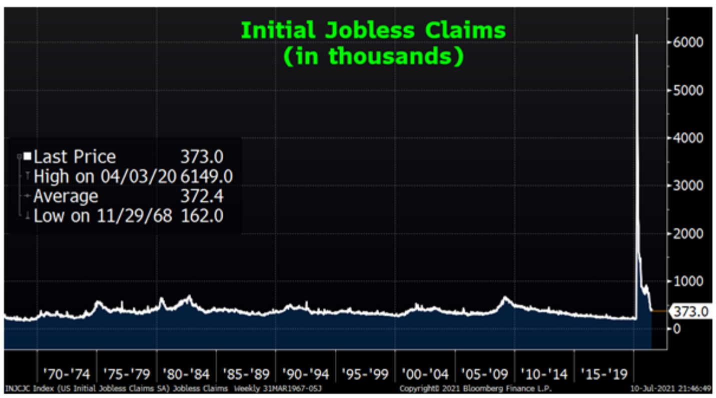
The downturn in government bond yields (rally in prices) accelerated, with the interest rate on the benchmark 10-Year U.S. Treasury skidding from 1.42% prior to Independence Day all the way down to 1.25% early on Thursday, before reversing sharply to 1.36% by the end of the week.

…propelling stocks, especially those of the Value variety, sharply higher, perhaps due to the consideration that the labor situation has been improving,…

THE PRUDENT SPECULATOR

LOTS OF JOB OPENINGS AND UNEMPLOYMENT FILINGS HAVE RETREATED





Even though a better-than-expected 850,000 new jobs were created in June, business continue to have difficulty finding qualified employees as the number of job openings totaled 9.21 million, setting a record for the third straight month. The labor picture is a work in progress, even with far better numbers today than many had projected a few quarters back. Looking at more current data, first-time filings for jobless benefits continue to reside near pandemic lows.

…and the outlook for Q2 U.S. GDP growth ticked up a tenth of a point over the last seven days,…

THE PRUDENT SPECULATOR

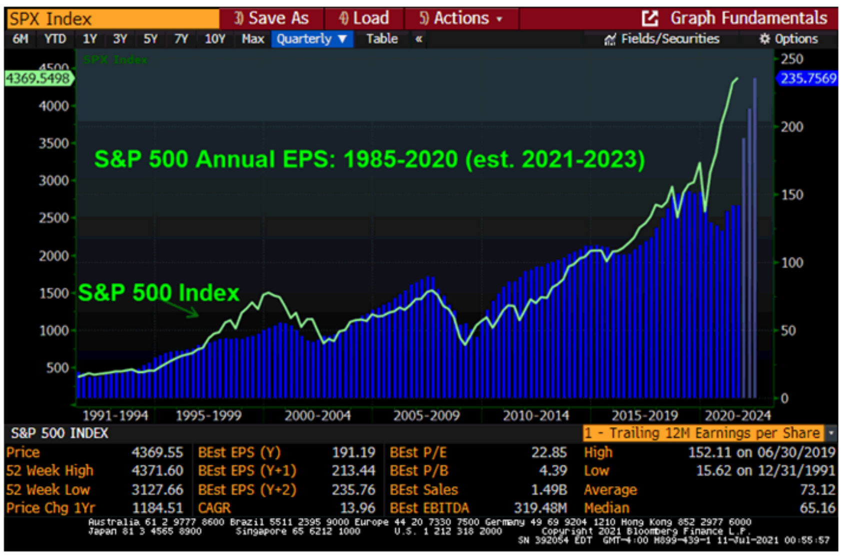
SENSATIONAL U.S. GDP GROWTH ESTIMATED FOR Q2

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 7.9% increase in Q2 2021 GDP on an annualized basis.

…while Q2 earnings reporting season, with its expectations of very favorable comparisons, begins this week.

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	$56.00	$211.09
9/30/2022	$53.95	$204.12
6/30/2022	$51.05	$196.98
3/31/2022	$50.09	$190.28
12/31/2021	$49.03	$187.60
9/30/2021	$46.81	$176.75
6/30/2021	$44.35	$167.84
ACTUAL		
3/31/2021	$47.41	$150.28
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 7.7.21

Alas, all *The New York Times* could come up with was, "Today was just let's take a breath on all this position changing," to justify the rally on Friday in a story titled, "New Highs in a Third Week of Gains!" Amazing how the narrative can change so quickly, though to be fair, it was still a red four trading days for Value and the average stock as Growth led the way for the Holiday-shortened week.

THE PRUDENT SPECULATOR

SUMMER ROLLER-COASTER: BIG MOVES, BUT AVERAGE STOCK DOWN A BIT

With bond yields falling rapidly, the Value and Growth pendulum shifted further toward more expensively priced stocks in the latest week, though a big move in the other direction roared in on Friday.

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
0.45	-2.75	0.35	2.34	2.34	9.36	8.11	13.28	11.97	Bloomberg Barclays Global-Aggregate Bond
0.31	-1.18	-0.07	-0.56	-0.56	5.15	9.04	17.23	15.65	Bloomberg Barclays US Aggregate Bond
0.25	15.05	33.42	38.35	38.35	92.60	36.07	50.59	115.73	Dow Jones Industrial Average
-0.21	15.82	35.88	42.56	42.56	95.48	33.04	40.64	79.06	New York Stock Exchange Composite
0.83	15.14	33.65	39.49	39.49	114.46	75.01	91.34	184.86	Russell 3000 Growth
-0.30	**18.28**	**40.09**	**48.43**	**48.43**	95.81	**31.37**	**38.93**	**75.33**	**Russell 3000 Value**
0.28	16.67	36.75	43.76	43.76	106.31	53.69	65.32	127.06	Russell 3000
-0.09	20.21	43.27	54.19	54.19	116.65	45.92	55.55	105.70	S&P 500 Equal Weighted
0.42	17.24	35.07	40.79	40.79	99.51	51.91	65.88	125.74	S&P 500
1.00	17.35	33.99	39.69	39.69	109.69	68.03	86.17	169.84	S&P 500 Growth
-0.23	**17.08**	**36.79**	**42.52**	**42.52**	86.00	**32.88**	**42.81**	**79.90**	**S&P 500 Value**
0.60	14.99	34.89	41.62	41.62	118.96	57.60	63.34	136.38	S&P 500 Pure Growth
-1.34	**25.96**	**55.90**	**73.27**	**73.27**	132.76	**23.42**	**23.76**	**68.35**	**S&P 500 Pure Value**

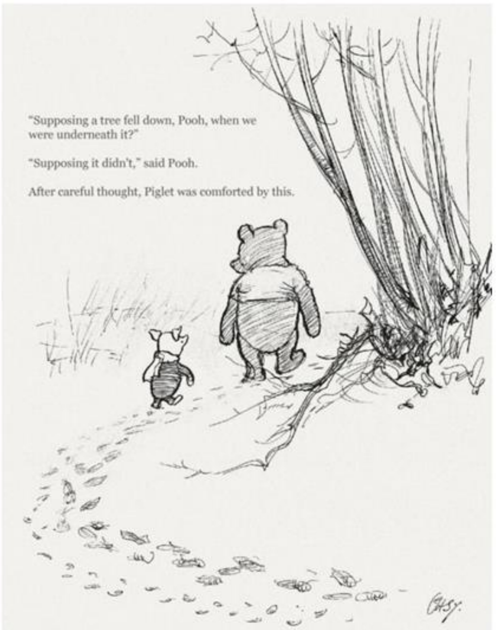
As of 07.09.21. Source Kovitz using data from Bloomberg

Of course, there was no "position changing" on our end as we continue to believe that time in the market trumps market timing,…

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

COVID-19, geopolitics, economic strength and Federal Reserve actions are some of the bogeymen now spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards for those who stick with stocks through thick and thin.



Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	287%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	235%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	264%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	205%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	206%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	164%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	138%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	119%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	116%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	112%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	108%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	117%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	111%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	132%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	107%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		104%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		62%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			59%
Biden Victory	11/3/2020	3,369.16	14%	24%				30%
Georgia Runoff	1/5/2021	3,726.86	9%					17%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**7%**	**14%**	**38%**	**72%**	**135%**

Source: Kovitz using data from Bloomberg. As of 7.9.21

There is of course no guarantee that stocks will overcome every obstacle in their path, but just since the end of the Financial Crisis, the markets have pushed higher in the fullness of time despite plenty of disconcerting headwinds, including the threat of and eventual implementation of tighter monetary policy.

…while we respect that volatility is part of the game in pursuit of handsome long-term returns in equities.

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	7/9/2021
17.5%	67.7%	578	39	2.3	3/23/2020	7/9/2021
15.0%	67.3%	562	45	2.0	3/23/2020	7/9/2021
12.5%	44.8%	338	72	1.3	3/23/2020	7/9/2021
10.0%	35.3%	247	98	0.9	3/23/2020	7/9/2021
7.5%	23.7%	149	157	0.6	9/23/2020	7/9/2021
5.0%	14.8%	73	306	0.3	10/30/2020	7/9/2021

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 7.9.21. 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%

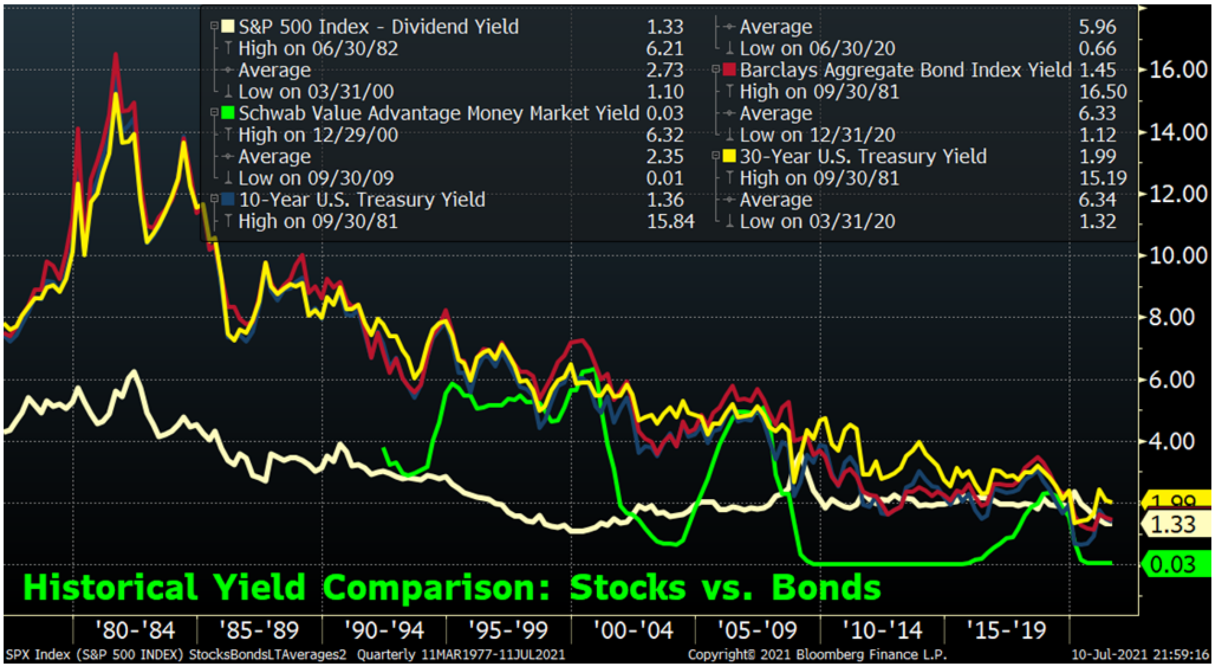
From 06.30.27 through 05.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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 we think that the decline in interest rates in the last few weeks only adds to the appeal from an income perspective of equities in general,…

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 (1.33%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 44 times the yield of a "generous" Money Market Fund**!



…and, in particular, our broadly diversified portfolios of what we believe to be undervalued stocks, often of dividend payers,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	18.4	14.5	1.3	2.6	2.2
ValuePlus	19.9	14.8	1.6	2.5	1.9
Dividend Income	17.4	14.1	1.1	2.5	2.5
Focused Dividend Income	17.5	14.2	1.3	2.5	2.5
Focused ValuePlus	17.7	15.1	1.7	2.7	2.1
Small-Mid Dividend Value	16.2	12.9	0.8	1.8	2.2
Russell 3000	36.1	24.1	2.9	4.5	1.3
Russell 3000 Growth	49.6	34.1	5.2	13.2	0.7
Russell 3000 Value	28.0	18.4	2.0	2.6	1.9
Russell 1000	32.5	23.6	3.1	4.7	1.3
Russell 1000 Growth	45.0	32.9	5.7	14.3	0.7
Russell 1000 Value	25.1	18.1	2.1	2.7	1.9
S&P 500 Index	30.8	22.9	3.2	4.7	1.3
S&P 500 Growth Index	37.6	29.6	5.9	11.1	0.7
S&P 500 Value Index	25.6	18.1	2.1	2.8	2.1
S&P 500 Pure Value Index	15.4	11.3	0.8	1.3	2.3

As of 07.10.21. 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.

…as dividend payouts have risen over time.

THE PRUDENT SPECULATOR

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 actually inched up in 2020, while in the last two weeks, *TPS* stocks JM Smucker, PNC Financial, Goldman Sachs, Bank of America, JPMorgan Chase and Morgan Stanley each hiked its payout.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 7.8.21)	185	9	2	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.)	$65.24
2021 (Est.)	$60.42
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 7.9.21

This is especially true with so much money around the world seemingly satisfied with negative yields on government debt,…

NEGATIVE YIELDING GOVERNMENT BONDS

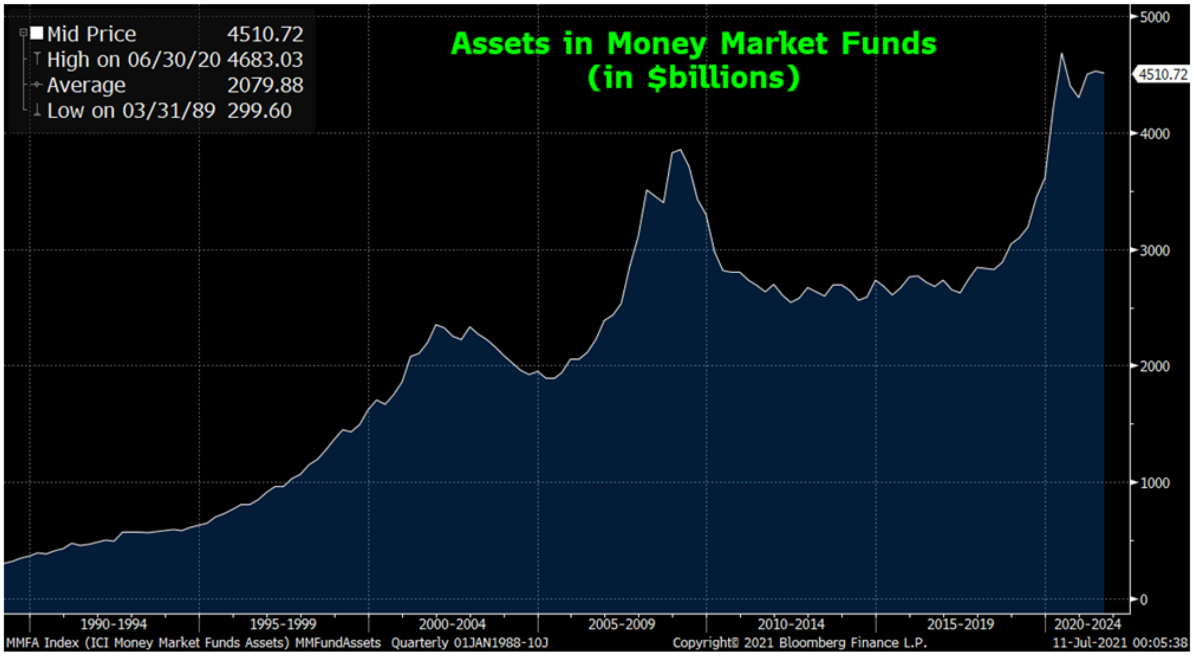
Incredibly, investors around the world continue to love government debt, despite losses this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.

…or parked in money-market funds,…

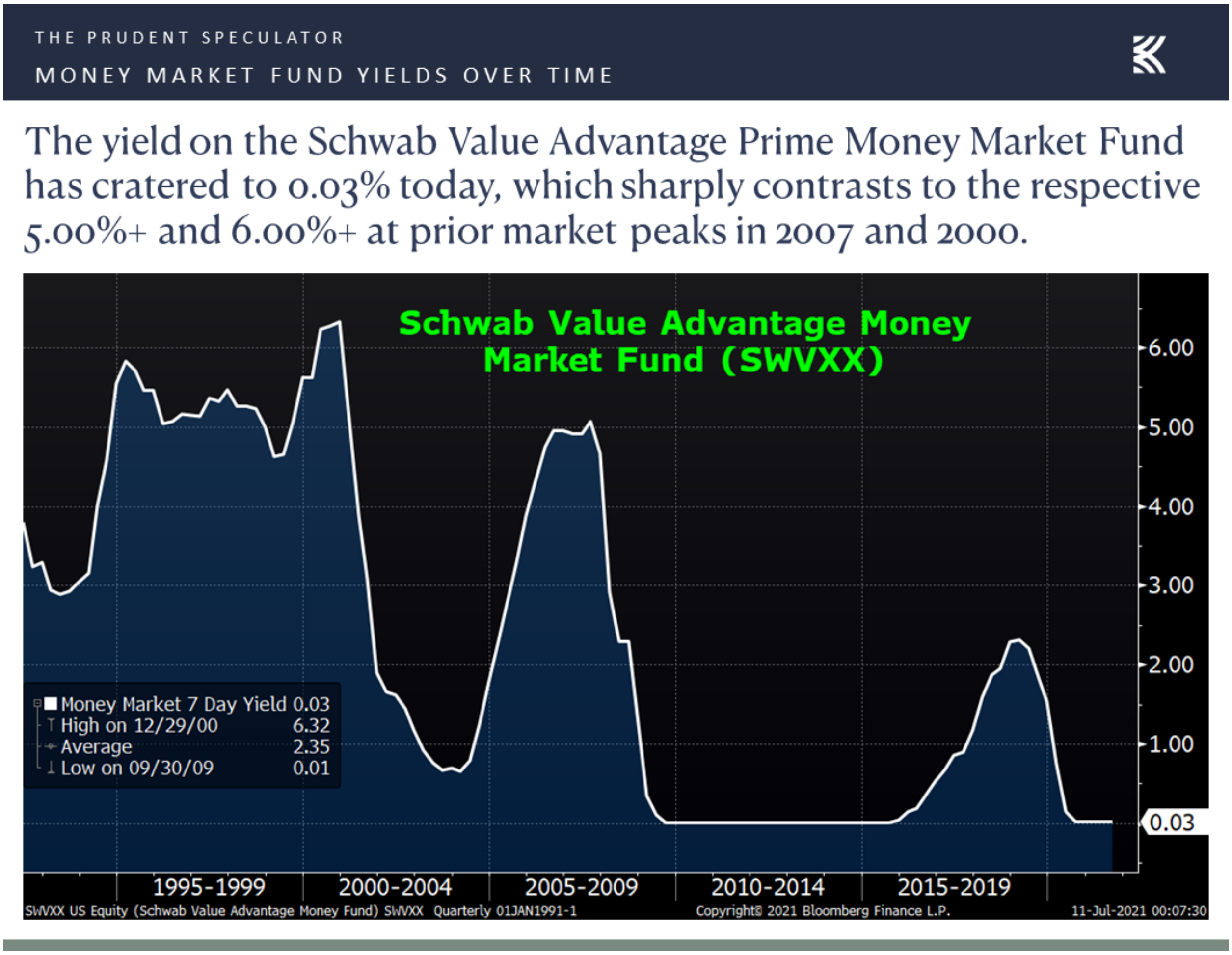
THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have seldom been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.



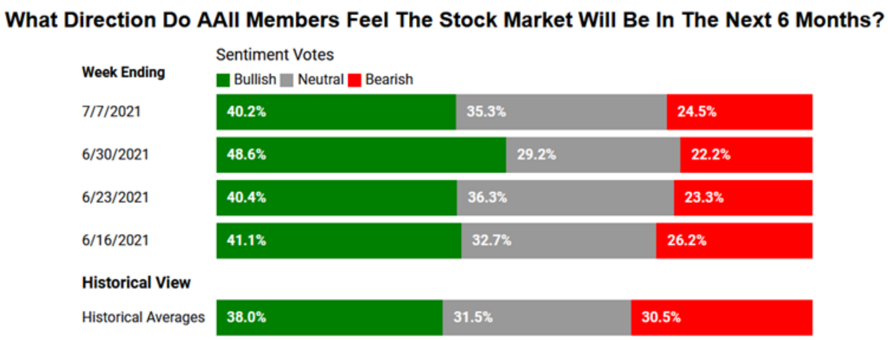
…where a 0.03% annualized yield today on one of the biggest of those funds would allow cash to double in 2,311 years!



No doubt, stocks will remain volatile in the near term, but the contrarian in us likes that many investors are not overly enthused about their prospects going forward despite all-time highs on the S&P 500,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULLISHNESS CONTRACTS



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	868	0.17%	0.15%	0.50%	0.41%	1.90%	1.65%	4.47%	3.99%
	Ten Groupings of 1769 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	178	0.20%	0.18%	0.77%	0.68%	2.53%	2.28%	5.32%	4.90%
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%	0.37%	0.28%	1.97%	1.69%	4.06%	3.49%
10	29.2	62.9	177	0.29%	0.28%	0.34%	0.27%	1.49%	1.26%	2.63%	2.19%

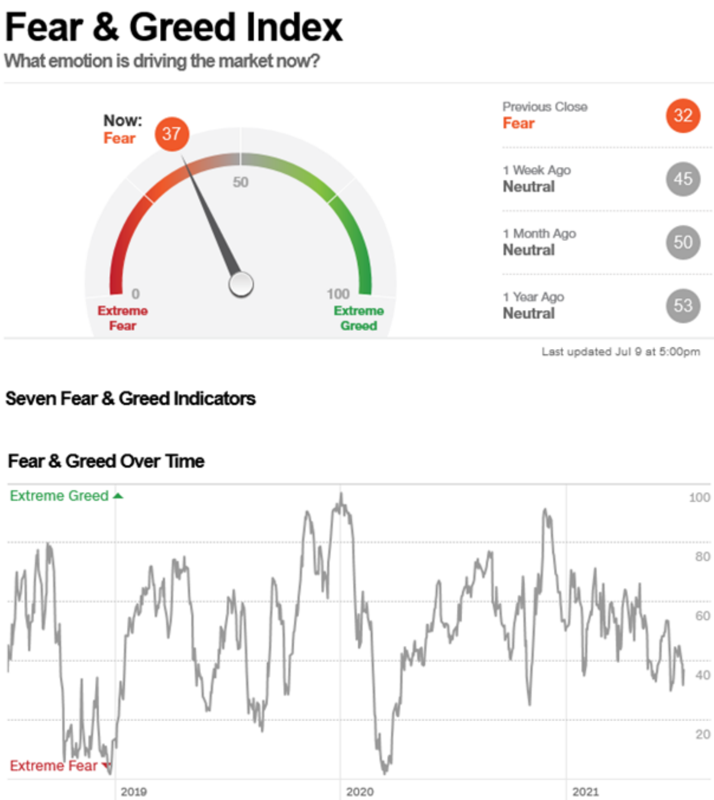
From 07.31.87 through 7.8.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 8.4-point dip in the number of Bulls in the latest AAII Sentiment Survey released on Wednesday evening, July 7, 2021, was a positive, though the 15.7-point Bull-Bear spread was still in the 7th decile of the historical figures.

…with more folks seemingly pessimistic than optimistic, per one real-time sentiment gauge.

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…WORRY 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 toward worry. Extreme Fear readings for Stock Price Strength and Stock Price Breadth, along with a Fear tally for Safe Haven Demand and Put and Call Options, offset Greed in Junk Bond Demand and Extreme Greed for Market Momentum.

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 the major railroads dropped on Thursday after the Biden administration was reported to push ahead on its review of industry consolidation and anti-competitive pricing in several industries. An expected Executive Order might include a sweeping review of rail and maritime transportation industry practices, including recent consolidations and pricing changes. The Order might also make it more difficult for the pending Kansas City Southern – Canadian Pacific merger to be completed.

There is concern that additional regulatory scrutiny may impact the ability of railroads to do business in the future, as they own large stretches of track and may act as monopolies in some areas where they own all of the track. According to Bloomberg, "The executive order will encourage the Surface Transportation Board to take up a longstanding proposed rule on so-called reciprocal or competitive switching, the practice whereby shippers served by a single railroad can request bids from a nearby competing railroad if service is available. The competitor railroad would pay access fees to the monopoly railroad, but could win the shipper's business by offering a lower price."

Railroads, including **Norfolk Southern** (NSC – $263.64), which we hold in our newsletter portfolios and for clients, dropped on the news, although NSC and its peers regained a good chunk of the drop on Friday. While pricing is always a major driver of profits for NSC, we expect that any rule changes, should they materialize, would do little to derail our affection for the company. Analysts expect NSC's earnings per share to grow above $14 by 2023, which is a big leg up from the $9.25 earned in 2020 and $10.25 earned in the pre-pandemic environment of 2019. Our Target Price for NSC now stands at $305.

The controversial saga continues to unfold for **Biogen** (BIIB – $358.16) as the Food and Drug Administration announced on Thursday restricted usage of the recently approved Alzheimer's Disease therapy Aduhelm (aducanumab) to those with mild cognitive impairment and mild dementia. As this is still a huge market, shares of the biotech giant rallied that day in an otherwise ugly trading session for stocks in general.

Those gains were reversed, however, on Friday after FDA Commissioner Dr. Janet Woodcock asked the Office of the Inspector General to investigate interactions between the U.S. agency and Biogen representatives prior to the drug's approval on June 7.

No doubt, there is plenty of drama left in the story, and though we respect that the price tag for Aduhelm may need to come down from the current list price of $56,000 as plenty of questions remain about the drug's perceived benefit, there is likely to be a significant revenue stream even at a meaningful discount. Of course, we remain cautious about the potential for competition in the space as the FDA's decision to observe trial results against a surrogate endpoint has seemingly opened the flood gates for all-comers with a possible Alzheimer's therapy. Taking all into account, including the patent loss for Tecfidera and looming threats to BIIB's generics business, we think we are reasonable with our current Target Price of $454.

Volkswagen AG (VWAGY – $33.40) offered preliminary results for the first half of 2021, which sent shares rebounding more than 6% in Friday's trading session. Despite the ongoing shortage of semiconductors, the automaker expects operating profit around 11 billion euros ($13.06 billion) and automotive net cash flow around 10 billion euros ($11.88 billion). The company, which reports its official financial figures on July 29, also extended CEO Herbert Deiss' contract through October 2025. The news was upbeat in an otherwise challenging week that saw the automaker and BMW slapped with an 875 million euro fine for emissions cheating, split 57% for VW and 43% for BMW.

Volkwagen also said it would give up control of Bugatti, the French hypercar maker, as it seeks to update its image. Bugatti will be taken over by Rimac, a Croatian carmaker known for electric hypercars, in a joint-venture with Porsche. Financial terms were not disclosed, but we don't think that Bugatti, even with its multi-million-dollar hypercars, was a big moneymaker for VW. Although shares have slumped since we first recommended them a couple of months ago, we continue to like VW's electric car future, bankrolled in large part by enormous profits at Porsche. With investors clamoring for often profitless stocks in the EV space, we continue to have a preference for value-priced Volkswagen. Our Target Price for VWAGY is $56.

Shares of **Greenbrier Companies** (GBX – $43.27) popped over 8% on Friday as the company reported that it earned $0.69 in fiscal Q3 that ended in May. The results were better than analysts expected, although the $450 million of sales was nearly 17% below the Q3 figure a year ago, even as railcar deliveries were close to 50% higher than Q2 of this year. Greenbrier continues to prioritize liquidity and expense control even as it expands its production capacity to a normal level, and the company now maintains a cash balance $628 million and has $221 million of available borrowing capacity. The firm also extended the maturity of its convertible bond issue and financed its new leasing venture with a $300 million non-recourse loan facility, which it used in part to acquire $129 million worth of assets in the quarter. The backlog sits at 24,800 units valued at $2.6 billion, roughly in line with Q2. The Q3 print was the first quarter in the black since fiscal Q4 in the prior year and management expects to build on the current momentum into the next few quarters.

CEO Bill Furman commented, "The recovery in our markets, we forecast for the second half of this calendar year, is now well underway. Greenbrier followed a disciplined strategy throughout the pandemic, and as a result, the company is in a very strong position…Our actions were purposeful and particularly regarding employee safety and those issues related to our cost base and manufacturing capacity. Greenbrier has a flexible business plan and a flexible manufacturing strategy. Along with scalable manufacturing, these are central to Greenbrier's response not only in the V-shaped downturn but in the improving market outlook and the upturn and strong economic recovery. This phase of our strategy is equally important. It presents novel challenges in operational risk as we add a large number of new production lines, many involving product changeovers, manufacturing line additions and new designs."

Mr. Furman elaborated, "We don't expect a lot of moderation economically driven in demand. I know there is concern out there and a lot of talk about this. I think it's overblown. The amount of spending and the stimulus that we've had in this economy plus the V-shaped recovery is going to bring a lot of momentum by itself. I think if we were to assess this, we'd look more at the effects of that demand on the supply chain and inflation."

Shares have rallied almost 19% year-to-date, although they are still some 6% below where we trimmed our positions in February. We continue to think consolidating acquisitions in North America and expansion abroad have both strengthened the company's competitive position and added beneficial diversification, while we appreciate that production volumes ought to improve as we move through the year. We acknowledge that GBX has historically been a volatile stock and that is unlikely to dissipate going forward. But for those able to stay on the ride, Greenbrier has potential to significantly benefit as the economy hits its stride. Shares offer a dividend yield 2.5%, while $100 million remains authorized under the repurchase plan. Our Target Price has been boosted to $55.