Market Commentary Monday, July 19, 2021

July 18, 2021

EXECUTIVE SUMMARY

Volatility – Tough Week for the Average Stock; Health News Worsens
Fed Speak – Jerome H. Powell on Capitol Hill
Econ Data – Mixed Numbers in the Latest Week
Jamie Dimon's Outlook – Consumer Raring to Go
Inflation – CPI Jumps; Historical Returns Data
Interest Rates – Lower Bond Yields Make Equities, Especially Dividend Payers, More Attractive
Contrarian Sentiment – Liking that Folks are Pessimistic About Equities
Q2 Reports – It is Early but 87.2% Beating the Street on EPS
Stock News – Updates on BLK, JPM, BAC, GS, MS, C, TFC, PNC & DAL

Market Review

A bit of housekeeping before this week's missive. As discussed in our *Sales Alert* last week, on Wednesday, July 14, we sold 16 shares of **Target** (TGT – $251.15) at $251.9619 for Buckingham Portfolio. We will also use that price to close out 31 of the TGT shares held in Millennium Portfolio and 50 of the TGT held shares in PruFolio.

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With the average stock in the Russell 3000 index off 3.7% over the last five trading sessions, and even the equal-weighted S&P 500 down 1.8%, equities certainly have had better weeks. To be sure downside volatility is hardly unusual, even in markets that have trended significantly higher,…

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5% UPS AND DOWNS SINCE FINANCIAL CRISIS

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

				3/9/2009	3/26/2009	23.11%	BULL
3/26/2009	3/30/2009	-5.44%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	6/3/2019	7/26/2019	10.25%	BULL
7/26/2019	8/14/2019	-6.12%	BEAR	8/14/2019	2/19/2020	16.11%	BULL
2/19/2020	3/12/2020	-26.74%	BEAR	3/12/2020	3/13/2020	9.29%	BULL
3/13/2020	3/23/2020	-17.47%	BEAR	3/23/2020	3/26/2020	17.55%	BULL
3/26/2020	4/1/2020	-6.07%	BEAR	4/1/2020	6/8/2020	30.84%	BULL
6/8/2020	6/11/2020	-7.12%	BEAR	6/11/2020	9/2/2020	19.28%	BULL
9/2/2020	9/23/2020	-9.60%	BEAR	9/23/2020	10/12/2020	9.18%	BULL
10/12/2020	10/30/2020	-7.48%	BEAR	10/30/2020	7/12/2021	34.09%	BULL
Average Drop		**-9.10%**		**Average Gain**		**15.49%**	

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is likely still fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 36 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4327.16.

…but we respect that the recent rise in coronavirus cases is disconcerting as Dr. Rochelle Walensky proclaimed last week, “This is becoming a pandemic of the unvaccinated. We are seeing outbreaks of cases in parts of the country that have low vaccination rates because unvaccinated people are at risk.”

Of course, the Director of the Centers for Disease Control and Prevention went on to say, “The good news is that if you are fully vaccinated, you are protected against COVID hospitalization and death and are even protected against the known variants, including the Delta variant circulating in this country.”

Happily, 48.6% of the U.S. population is now fully vaccinated, so even though Los Angeles County again mandated mask wearing on Friday and the world of sports has had some prominent athletes test positive, the likelihood of a return to economy-damaging lockdowns would appear to be remote.

And speaking of the economy, Federal Reserve Chair Jerome H. Powell sounded relatively upbeat last week in testimony on Capitol Hill,…

FED CHAIR ON CAPITOL HILL: CURRENT ECONOMIC SITUATION AND OUTLOOK

Semiannual Monetary Policy Report to the Congress, July 14 & 15, 2021 – Chair Jerome H. Powell

Current Economic Situation and Outlook

Over the first half of 2021, ongoing vaccinations have led to a reopening of the economy and strong economic growth, supported by accommodative monetary and fiscal policy. Real gross domestic product this year appears to be on track to post its fastest rate of increase in decades. Household spending is rising at an especially rapid pace, boosted by strong fiscal support, accommodative financial conditions, and the reopening of the economy. Housing demand remains very strong, and overall business investment is increasing at a solid pace…supply constraints have been restraining activity in some industries, most notably in the motor vehicle industry, where the worldwide shortage of semiconductors has sharply curtailed production so far this year.

Conditions in the labor market have continued to improve, but there is still a long way to go. Labor demand appears to be very strong; job openings are at a record high, hiring is robust, and many workers are leaving their current jobs to search for better ones. Indeed, employers added 1.7 million workers from April through June. However, the unemployment rate remained elevated in June at 5.9%, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year. Job gains should be strong in coming months as public health conditions continue to improve and as some of the other pandemic-related factors currently weighing them down diminish.

Inflation has increased notably and will likely remain elevated in coming months before moderating. Inflation is being temporarily boosted by base effects, as the sharp pandemic-related price declines from last spring drop out of the 12-month calculation. In addition, strong demand in sectors where production bottlenecks or other supply constraints have limited production has led to especially rapid price increases for some goods and services, which should partially reverse as the effects of the bottlenecks unwind. Prices for services that were hard hit by the pandemic have also jumped in recent months as demand for these services has surged with the reopening of the economy.

To avoid sustained periods of unusually low or high inflation, the Federal Open Market Committee's (FOMC) monetary policy framework seeks longer-term inflation expectations that are well anchored at 2 percent, the Committee's longer-run inflation objective. Measures of longer-term inflation expectations have moved up from their pandemic lows and are in a range that is broadly consistent with the FOMC's longer-run inflation goal.

Sustainably achieving maximum employment and price stability depends on a stable financial system, and we continue to monitor vulnerabilities here. While asset valuations have generally risen with improving fundamentals as well as increased investor risk appetite, household balance sheets are, on average, quite strong, business leverage has been declining from high levels, and the institutions at the core of the financial system remain resilient.

…while the important retail sales tally for June came in well above expectations,…

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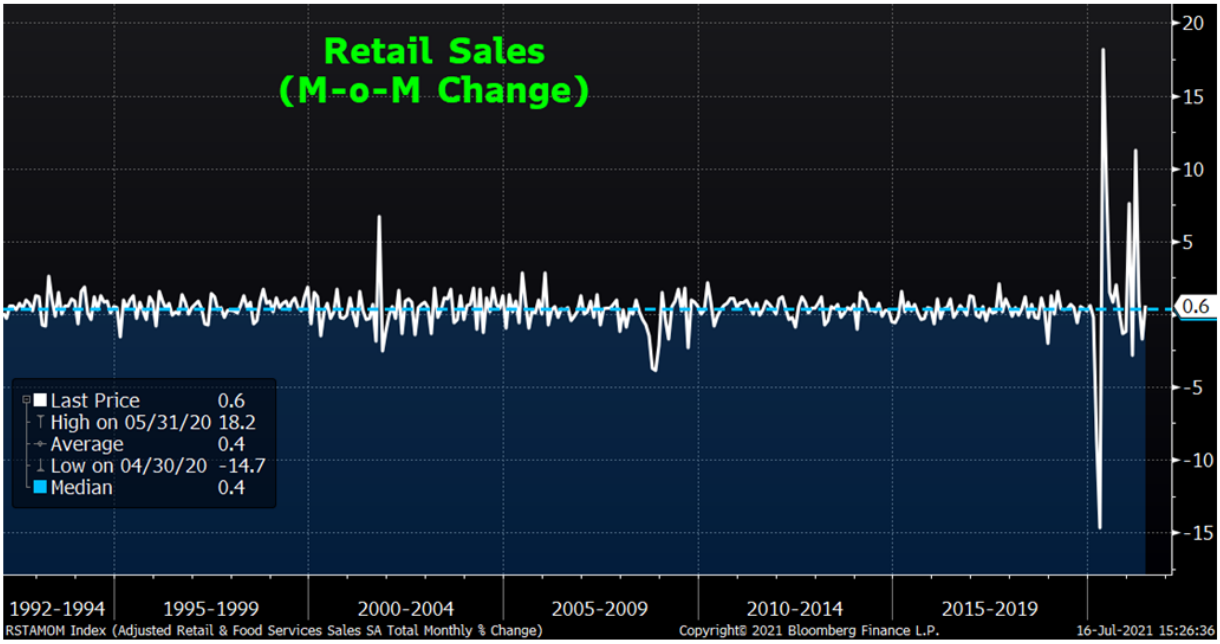
RETAIL SALES SURPRISE TO THE UPSIDE IN JUNE

While the $1,400 government stimulus checks that hit bank accounts in March were likely already spent, retail sales rebounded by 0.6% in June, much better than expected. In fact, with an 18% year-over-year again turned in as well, retail sales have easily exceeded pre-pandemic levels.



…even as the health of the consumer going forward remains in question.

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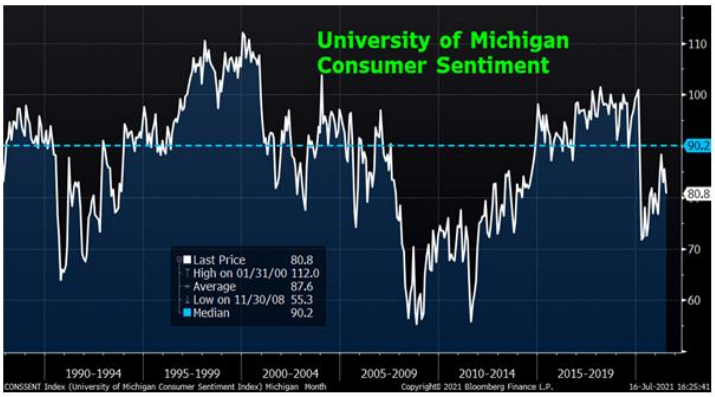
MIXED PICTURE ON MAIN STREET SENTIMENT



The NFIB Small Business Index for June rose 2.9 points to 102.5, beating estimates as owners surveyed became more optimistic on the U.S. economy. On the other hand, the preliminary Univ. of Michigan gauge of consumer sentiment this month fell to a much-weaker-than-estimated 80.8, down from a final reading of 85.5 in June. The median for this gauge has been 90.2, so consumers are still a long way from feeling optimistic.

Still, the latest measures of the state of the factory sector were very good,…

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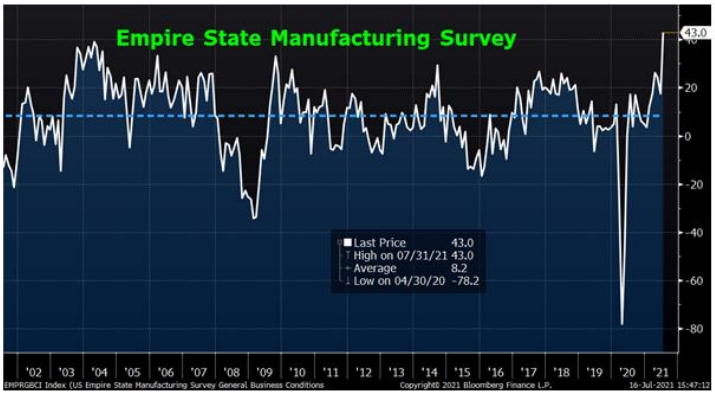
EAST COAST FACTORY ACTIVITY STILL VERY STRONG IN JULY



The Empire State gauge of manufacturing activity in the New York area soared to a record high in July, jumping to a much-better-than-expected reading of 43.0. The Philadelphia Fed's July measure of manufacturing activity in the mid-Atlantic region retreated to a still-very-strong reading of 21.9, down from a 50-year high of 50.2 three months prior. Both indexes are still well above average for this business conditions measure, despite supply-chain bottlenecks.

…while the labor market continued its gradual improvement.

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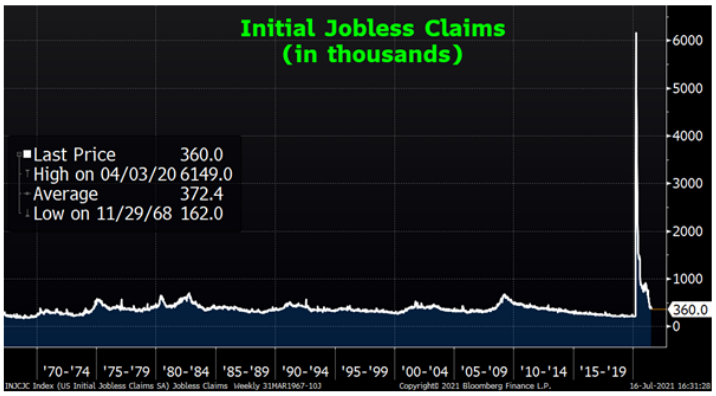
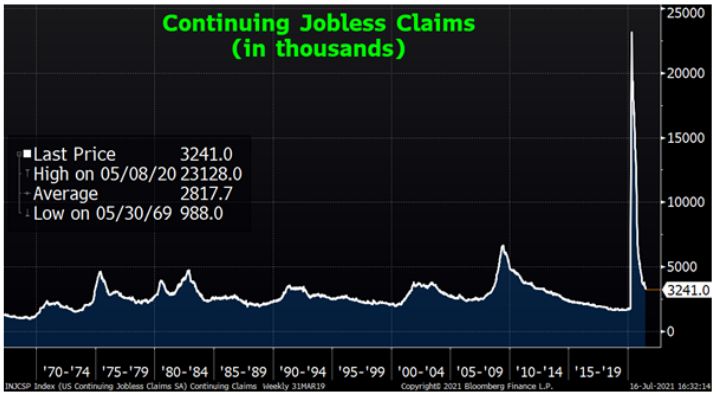
NEW PANDEMIC LOWS IN JOBLESS FILINGS & CONTINUING CLAIMS





The jobs market recovery saw further improvement in the latest week, with new filings for unemployment benefits for the period ended July 10 coming in at a seasonally adjusted pandemic low of 360,000, down 26,000 from week prior. Continuing claims filed through state programs tumbled by 126,000 to 3.24 million, a pandemic low, though there have been more than 85 million jobless applications filed over the last 69 weeks.

True, the latest estimate for Q2 GDP growth from the Atlanta Fed retreated again to a still-fantastic 7.5% on an annualized basis,…

SENSATIONAL BUT LESS STELLAR U.S. GDP GROWTH ESTIMATED FOR Q2

While Q1 2021 saw an acceleration of the economic rebound, the Atlanta Fed is now projecting a 7.5% increase for Q2 2021 GDP on an annualized basis, though that guess is down from 7.9% the week prior.

…but we heard optimistic economic commentary from executives at the nation's biggest financial companies last week, including from **JPMorgan Chase** (JPM – $151.91) CEO Jamie Dimon.

JPM – JAMIE DIMON ON THE ECONOMY: CONSUMERS RARING TO GO

If you look at today, everything we talk about loans being down, if the consumer is -- the pump is primed. The consumer, their house value is up, their stock value is up, their incomes are up, their savings are up, their confidence are up. The pandemic is kind of in the rear-view mirror. Hopefully, nothing gets worse with it and they're raring to go. And you see it in home prices, you see it in auto purchases.

You see it -- I mean, they'd be much higher, but for supply constraints right now. And so -- and businesses equally, are in good shape. They're not overleveraged today. They do have -- a lot of charts show that the corporate debt is like higher than it was, so is corporate cash. And if you look at middle market losses, it's almost zero, almost zero, a huge unutilized revolving stuff like that. So, the second the economy starts to grow, which -- and I mean, as you're going to see loans go up, because of inventory receivables and capital expenditures and stuff like that. So, it is completely different and you've got fiscal policy on autopilot. I mean there's a lot that hasn't been spent yet. There's a lot more that's going to be passed. And you have QE, so far, it's a little bit around positive to around $20 million a month. And I just think you're going to see -- hopefully, see a very strong economy. We don't know how long.

Obviously, if you listened to what I just said that there's a little inflationary effect on that. And we don't know in the future -- I talked about Goldilocks. Goldilocks means -- it's I'm hopeful, not predicting. Like Goldilocks is that inflation goes up, the 10-year bond goes up, the growth is still quite strong. You may have growth in the second half this year stronger than it's ever been in the United States of America, okay. And Europe is probably six months behind America. And so growth can go into next year, and then the 10-year bond goes to 3% and a lot of growth, the short rate goes to 2%. It won't make any difference as long as you had strong growth in consumer there.

Jobs are plentiful, wages are going up. These are all good things. And so yes, obviously, it's -- the inflation could be worse than people think. I think it will be a little bit worse with the bad things. I don't think it's all going to be temporary, but that doesn't matter if we have very strong growth.

JPMorgan Q2 Earnings Call, July 13, 2021

Certainly, the strength of the economy is critical to the direction of stock prices, but inflation grabbed larger headlines last week, especially when the consumer price index (CPI) for June jumped by 5.4% versus the year-prior figure.

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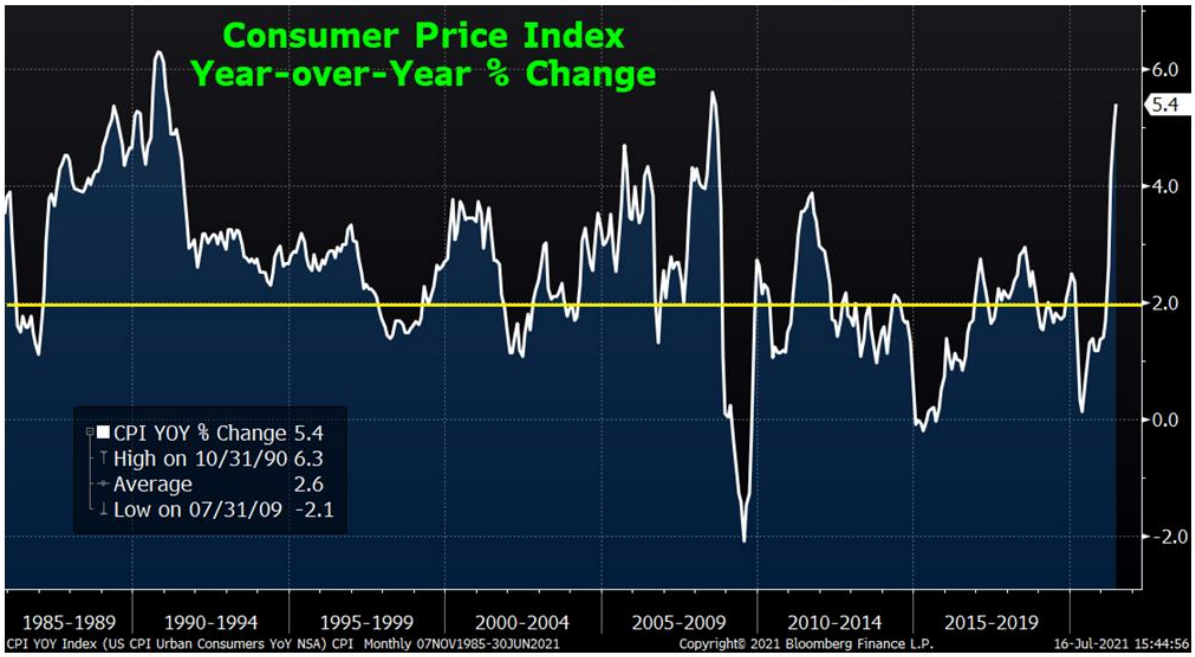
INFLATION AT THE CONSUMER LEVEL SOARS TO 5.4% IN JUNE

Inflation in the U.S. soared in June by the largest amount since 2008, with the Consumer Price Index rising by 5.4% on a year-over-year basis and 0.9% compared to the May reading, led by hefty price hikes for used cars, as well as gains in food, energy, clothing and travel.



Not surprisingly, inflation was a major topic of conversation during Mr. Powell's Washington testimony last week. The Fed Chair had plenty to say on the subject, stating, "We're experiencing a big uptick in inflation, bigger than many expected, bigger certainly than I expected, and we're trying to understand whether it's something that will pass through fairly quickly or whether, in fact, we need to act, " while reminding, "One way or another, we're not going to be going into a period of high inflation for a long period of time, because of course we have tools to address that."

Mr. Powell added, "It's not tied to the things that inflation is usually tied to — which is a tight labor market, a tight economy. This is a shock going through the system associated with the reopening of the economy, and it's driven inflation well above 2 percent, and of course we're not comfortable with that…To the extent that it is temporary, then it wouldn't be appropriate to react to it. But to the extent that it gets longer and longer, we'll have to continue to re-evaluate the risks that would affect inflation expectations."

For his part, Charles Evans, President of the Federal Reserve Bank of Chicago, said, "There's good reason to think that a lot of these one-time price increases are going to revert. I think we could be facing much less inflation in 2022 than many people think." And, Mr. Powell concluded, "This particular inflation is just unique in history. We don't have another example of

the last time we reopened a $20 trillion economy with lots of fiscal and monetary support. We are humble about what we understand."

With so much uncertainty about whether inflation will be "transitory," we won't be surprised by a continued pick up in equity market volatility, but we like what the historical evidence has to say, on average, about the performance of stocks. Whether inflation is elevated or not, Value stocks have had very nice average returns since 1957 and since 1927,…

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5%+ INFLATION & EQUITY RETURNS: PARSING THE DATA

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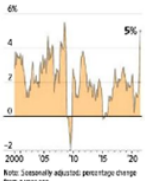
◆ Jobless claims drop, but hiring falls short..... A2
◆ Heard on the Street: Step into inflation's looking-glass..... B10

Consumer-price index



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

While many transitory factors appear to continue to be the cause, the consumer price index jumped in May by 5.0% and in June by 5.4% 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.

…and the same can be said based on changes in the inflation rate.

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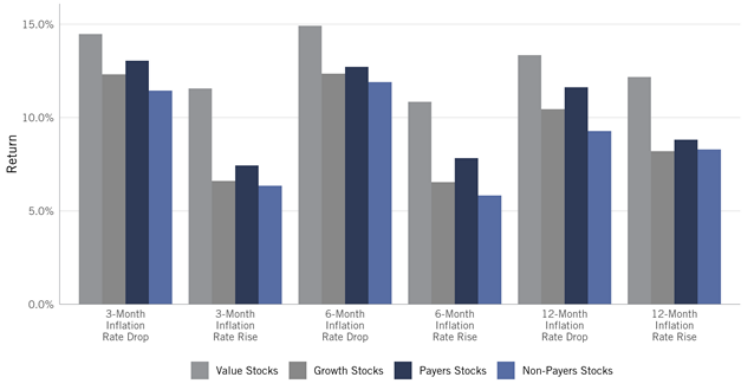
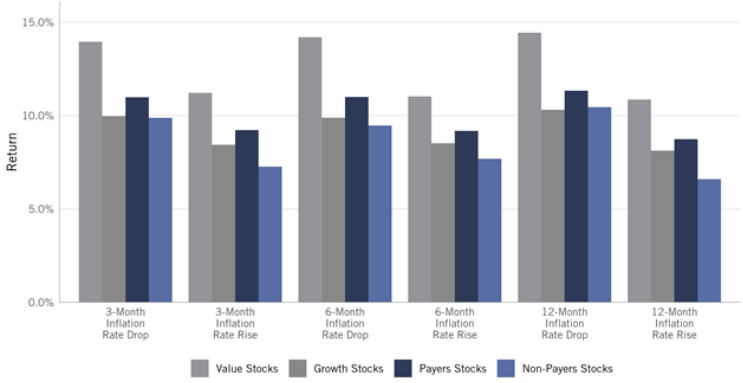
INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



From 12.31.27 through 03.31.21. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 12.31.27 through 03.31.21. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising inflation rates will prove fatal for equities, as nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the inflation rate over 3-, 6-, and 12-month time spans, with Value Stocks and Dividend Payers leading the charge.

We also note that Warren Buffett had the following to say back in 1977 when inflation was a chronic bogeyman and the legendary investor was asked why he owned so much stock, “Partly, it’s habit. Partly, it’s just that stocks mean business, and owning businesses is much more interesting than owning gold or farmland. Besides, stocks are probably still the best of all the poor alternatives in an era of inflation – at least they are if you buy in at appropriate prices.”

Why an Unpleasant Inflation Surprise Could Be Coming

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly for unexpected reasons: it "is sluggish and slow-moving, until it isn't."

A case in point: in 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes," they said.

The effect of an overheating economy was then compounded by policy errors. Fed chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Johnson and then Richard Nixon to keep interest rates low. **From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.**

Wall Street Journal, February 28, 2018

In yet another example of fear over facts, *The Wall Street Journal* warned of dire consequences should we have another inflation and interest rate scare like 1965-1981. If past is prologue, as Value investors, we hope they are right.

Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%

Source: Morningstar

Obviously, it was just one time period, but the terribly inflationary environment from 1966 through 1982 was a terrific period for Value investors…and we continue to believe that our portfolios sport better than "appropriate prices," to borrow the phrase from the Oracle of Omaha,…

THE PRUDENT SPECULATOR

MANAGED ACCOUNT STRATEGIES & BENCHMARKS

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.6	14.0	1.3	2.6	2.2
ValuePlus	19.1	14.3	1.6	2.5	2.0
Dividend Income	17.0	13.8	1.1	2.5	2.6
Focused Dividend Income	17.3	14.2	1.3	2.5	2.5
Focused ValuePlus	17.0	14.8	1.7	2.7	2.1
Small-Mid Dividend Value	15.8	12.6	0.8	1.7	2.2
Russell 3000	34.6	23.6	2.9	4.4	1.3
Russell 3000 Growth	48.6	33.5	5.1	13.0	0.7
Russell 3000 Value	26.4	17.9	2.0	2.6	1.9
Russell 1000	31.2	23.2	3.1	4.6	1.3
Russell 1000 Growth	44.2	32.5	5.6	14.1	0.7
Russell 1000 Value	23.7	17.7	2.1	2.7	1.9
S&P 500 Index	29.6	22.5	3.1	4.6	1.4
S&P 500 Growth Index	37.4	29.5	5.8	11.0	0.7
S&P 500 Value Index	23.9	17.7	2.1	2.8	2.1
S&P 500 Pure Value Index	14.6	10.9	0.8	1.3	2.4

As of 07.17.21. 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.

…especially with interest rates remaining at incredibly low levels.

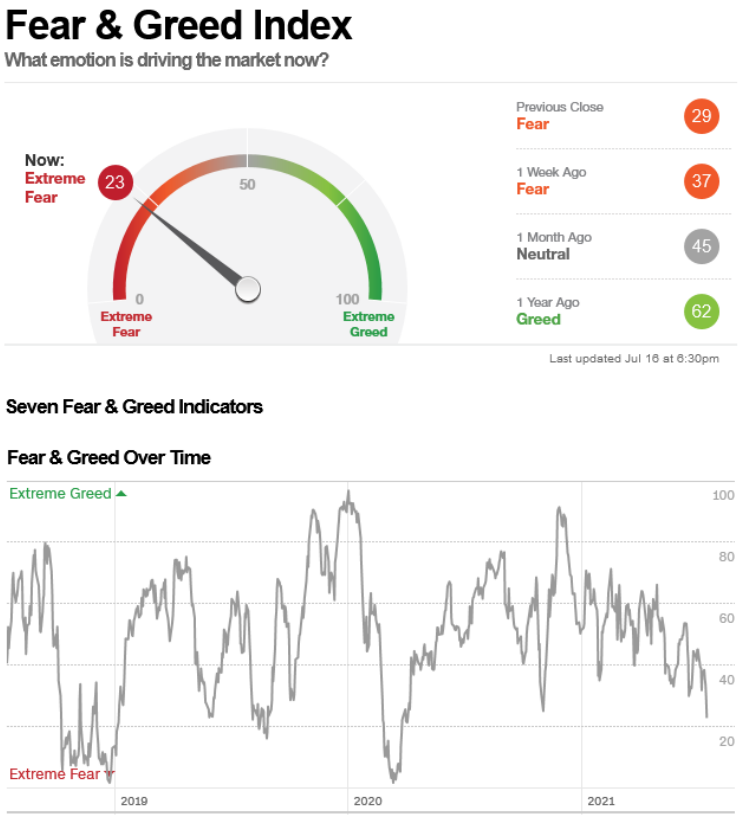
THE PRUDENT SPECULATOR

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 (3.37% vs. 1.29% 10-Year) and comparatively generous S&P 500 dividend yield of 1.35%.

Anything can happen in the near term, and the equity futures were suggesting that stocks would head south as the new trading week began, but the contrarian in us likes that investors are exhibiting quite a bit of fear,…

FEAR & GREED INDEX…EXTREME FEAR

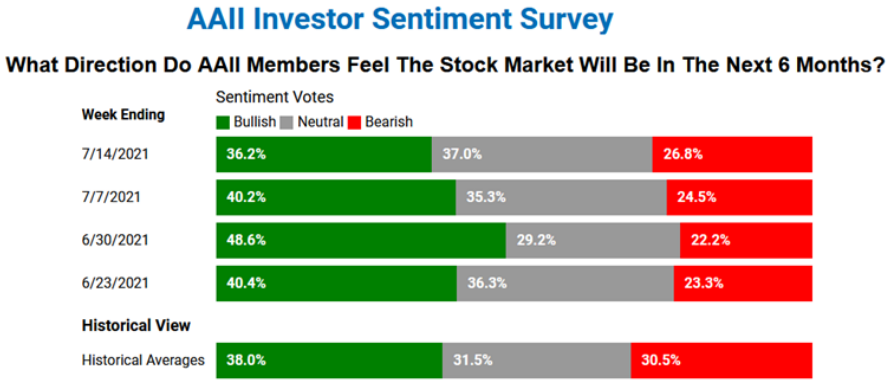


There is still a ton of frothiness in richly valued (or impossible to value) areas of the equity market, but even with the S&P 500 not too far from an all-time high, the *CNNMoney* Fear & Greed Index is tilted heavily toward worry. Extreme Fear readings for Safe Haven Demand, Put and Call Options, Stock Price Strength and Stock Price Breadth, were only partially offset by a Greed tally in Junk Bond Demand.

…with the latest assessment of Bullishness on Main Street coming in below the historical average,…

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	869	0.17%	0.15%	0.50%	0.41%	1.90%	1.65%	4.46%	3.99%
Ten Groupings of 1770 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	161	0.11%	0.09%	0.32%	0.19%	1.46%	1.22%	4.44%	3.95%
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%	0.69%	0.62%	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%	1.51%	1.28%	2.63%	2.19%

From 07.31.87 through 7.15.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 4.0-point drop in the number of Bulls in the latest AAII Sentiment Survey released on Wednesday evening, July 14, 2021, was a positive, though the 9.4-point Bull-Bear spread still was modestly above the historical average.

…and that the money seeking safer homes remains extraordinarily high.

THE PRUDENT SPECULATOR

INFLOWS CONTINUE…INTO BOND FUNDS; OUTFLOWS FOR U.S. STOCK FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/7/2021	6/30/2021	6/23/2021	6/16/2021	6/9/2021
Total Equity	-7,628	5,427	-14,045	25,992	-12,977
Domestic	-10,398	998	-18,345	21,432	-13,643
World	2,771	4,430	4,300	4,560	666
Hybrid	879	765	-1,698	-1,201	103
Total Bond	12,735	17,768	8,806	9,808	13,567
Taxable	9,878	15,493	6,168	7,165	10,280
Municipal	2,856	2,274	2,637	2,644	3,287
Commodities	-564	-132	-305	537	346
Total	5,423	23,828	-7,242	35,136	1,039

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

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

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

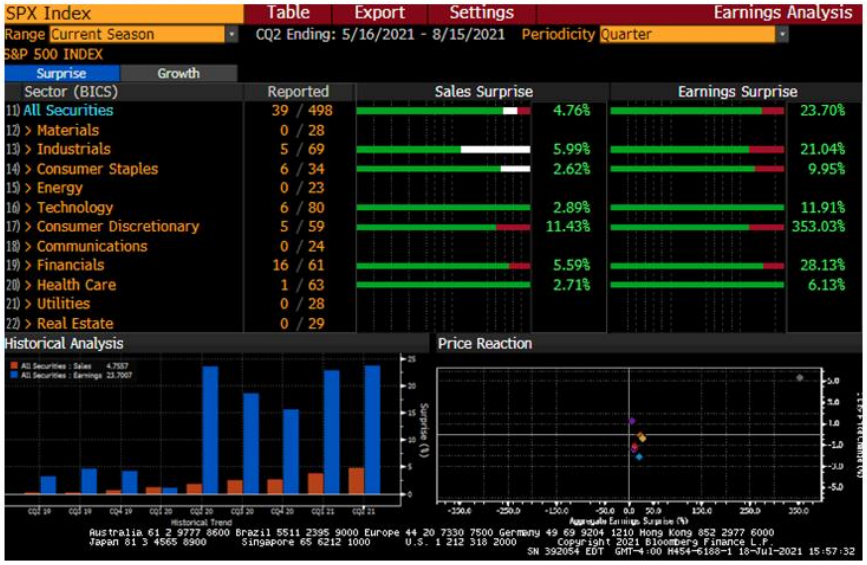
Stock Updates

Second quarter earnings season kicked off last week and the results were very good, but investors chose not to reward many of the companies, even as Standard & Poor's boosted its estimate for EPS for the S&P 500 for this year and next.

THE PRUDENT SPECULATOR

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021 AND 2022

Q2 earnings reporting season is off to a great start, relative to still overly pessimistic analyst projections. It is very early, but 87.2% of the S&P 500 companies that have announced results thus far have topped EPS expectations and 84.6% have exceeded revenue forecasts.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$56.05	$211.18
9/30/2022	$53.89	$204.41
6/30/2022	$51.20	$197.58
3/31/2022	$50.04	$192.46
12/31/2021	$49.28	$189.83
9/30/2021	$47.06	$178.73
6/30/2021	$46.08	$169.57
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 7.15.21

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 nine of our companies that had earnings news out last week, while we are in the process of posting to our website an updated Target Price listing for all of our recommendations.

Shares of **BlackRock** (BLK – $875.02) hit a new all-time high last week just before the company reported fiscal Q2 2021 results, bringing the ETF and asset management giant's YTD gain as high as 28%, on top of a 47% rise last year. BLK earned an adjusted $10.03 per share (vs. $9.48 est.) and had revenue of $4.82 billion (vs. $4.58 billion est.). The company had $81 billion of net inflows in the quarter, which translated to 4% organic asset growth and 13% annualized fee growth. BlackRock has had more than half a trillion dollars of inflows in the past twelve months.

CEO Larry Fink commented, "Building on what we laid out at our Investor Day last month, we remain focused on consistently improving and investing ahead of our clients' needs in the

biggest growth areas of the future. In ETFs, the benefit of our investments over time are showing up through accelerated momentum across the franchise. In June, client assets in our ETFs passed $3 trillion globally driven by second quarter net inflows of $75 billion."

Mr. Fink noted that BlackRock continues to invest globally, "Rapid economic development and wealth accumulation in the world's second-largest economy has propelled the growth of the $9 trillion Chinese domestic asset management industry. Earlier this year, we obtained our wealth management joint venture license. And last month, we received our fund management company license. We are the first global asset manager firm to obtain this type of license. We are now well positioned to extend the breadth of our investment solutions and insights to all our client segments across China and help more people transition their savings to investments in China, including in preparation for their retirement… After a period like no other in the firm's history, BlackRock has never been better positioned for the future. My recent trips to Europe and the Middle East to meet with our clients have only further validated our differentiated positioning and our approach to building deeper, broader relationships with our clients."

We again hiked our Target Price for BlackRock but note that shares have been a rocket ship since we first recommended them in March of last year. Of course, the portfolios have also risen substantially since then, so BLK's relative weight isn't yet uncomfortable in our broadly diversified strategies. But with every stock fighting for its position and earnings season often a time where new opportunities present themselves, we are watching our BLK position closely. BLK's earnings are projected to continue to rise, from $33.82 in 2020 to near $50 by 2023. The dividend was hiked in January and BLK's yield is around 1.9%. Our Target Price for BLK is now $944.

Global financial services and retail banking giant JPMorgan Chase reported earnings that beat analyst expectations, but shares retreated after the report. JPM earned $3.78 per share in Q2, compared with the analyst consensus estimate of $3.15. Trading revenue was $4.10 billion, trailing the consensus estimate of $4.12 billion, while Investment Banking revenue was $3.42 billion, ahead of the $2.94 billion consensus. JPM had a $3 billion credit reserve release and raised the quarterly dividend from $0.90 to $1.00 per share.

2Q21 Financial highlights

ROTCE[1]	CET1 capital ratios[2]	Net payout LTM[3]
23%	Std. 13.0% | Adv. 13.8%	45%

Income statement
- 2Q21 net income of $11.9B and EPS of $3.78
  - Excluding credit reserve releases[4], net income of $9.6B, EPS of $3.03 and ROTCE of 18%
- Managed revenue of $31.4B[5]
- Expense of $17.7B and managed overhead ratio of 56%[5]

Balance sheet
- Loans[6,7]: average loans of $1.0T flat YoY and up 1% QoQ
- Deposits: average deposits of $2.3T up 23% YoY and up 4% QoQ
- Basel III CET1 capital of $209B[2]
  - Standardized CET1 capital ratio of 13.0%[2]; Advanced CET1 capital ratio of 13.8%[2]

Capital distributed
- Common dividend of $2.7B or $0.90 per share
- $5.9B of common stock net repurchases in 2Q21[8]

Significant item ($mm, excluding EPS)

	Pretax	Net income	EPS
Firmwide credit reserve release	$3,026	$2,300	$0.75

[1] See note 3 on slide 11
[2] Represents the estimated common equity Tier 1 ("CET1") capital and ratio for the current period. See note 1 on slide 12
[3] Last twelve months ("LTM"). Net of stock issued to employees
[4] See note 2 on slide 11
[5] See note 1 on slide 11
[6] Includes the impact of loans originated under the Paycheck Protection Program ("PPP")
[7] See note 6 on slide 12
[8] Includes the net impact of employee issuances. See note 4 on slide 12

1

JPMORGAN CHASE & CO.

CFO Jeremy Barnum was broadly positive, despite fears of rising inflation, "We're bullish on the economy. We believe that comes with higher inflation and, therefore, higher rates. And in light of that, we're happy to be patient right now. When that actually changes, and we decided to deploy more [cash], you'll see it in the future."

Mr. Barnum also commented on JPM's outlook, "We released $3 billion of reserves this quarter as we grow increasingly confident about the economy in light of continued improvement in COVID, especially in the U.S. In Consumer, we released $2.6 billion, including $1.8 billion in Card and $600 million in Home Lending. And in Wholesale, we released nearly $450 million. So this leaves us with reserves of $22.6 billion, which, as a result of elevated remaining uncertainty about COVID and the shape of the economic recovery, are higher than would otherwise be implied by our central economic forecasts… We are encouraged by the continued progress against the virus and the economic recovery that is underway, especially in the United States, although we want to acknowledge the challenges that much of the rest of the world is facing, and we're hopeful that a global recovery will follow closely behind. Our performance this quarter once again showcases the power of our diversified business model as headwinds in NII from Consumer de-levering are offset by strong fee generation across AWM and CIB and exceptionally low net charge-offs across the board. While we're proud of the performance of the

company and of our people through the crisis, the competition in every business from banks, fintechs and others is as intense as ever."

With the pandemic hopefully headed for the rear-view mirror, we believe America's largest bank is set up nicely to benefit from robust economic growth expected over the next few years. JPM is a systemically important bank that is still growing its branch network and the company expects to have a presence in all lower 48 states by July. Shares trade at an attractive 11 times the consensus 2021 earnings estimate and 13 times the 2022 consensus estimate with a dividend yield of 2.4%. Our Target Price for JPM has been increased to $180.

Bank of America (BAC – $37.92) had EPS of $1.03 in Q2 (vs. $0.77 est.) and a 20% return on tangible common equity. The financial behemoth released $2.2 billion of asset reserves ($2.7 billion of reserves were released in Q1) as a result of improving credit quality. Lower sales and trading results were offset by strong demand for consumer and wealth management services, which in turn drove higher credit card income and AUM fees.

CEO Brian Moynihan said, "The GDP growth estimates by our BofA Securities Research team for the second quarter stand at 10% and stand at 7% for the full year 2021. And the reopenings further driving projections of an economy has continued to grow at a rate above the pre-pandemic periods into '23. Also, the unemployment rate dropped below 6% this quarter projected by economies to continue to fall. You also note the stability to increase consumer spending from our own BAC customers, which is not only much higher than the same periods in 2020, which you would expect, but is notably 22% higher than the first half of '21 compared to 2019. And you can see that in the lower right of the page. That growth rate in '19 was already growing strongly before the pandemic."

Mr. Moynihan concluded, "The organic growth machine that we had rolling before the pandemic hit is reemerging as the economy normalizes. We start to be careful to ensure that the war on the virus stays won, but we're seeing great trends. In retail and preferred and small business, we saw a strong production of core transaction accounts above pre-pandemic levels. This quarter was our best net sales growth in checking account since the second quarter 2015. We saw our card production about 90% overall pre-pandemic. But net cards — net of runoff were positive, the first time since the quarter — first quarter of 2020 when we entered the pandemic. We saw growth in new Merrill Edge investment accounts. We saw a good mortgage production. We saw a stronger digital activity. In wealth management, we saw household growth and strong flows continue to grow even with the use of our banking platform to grow its credit side. In Global Banking, we saw loan growth and new production coming on while line usage still remains very low. We saw investment banking closed this quarter with record pipelines. In markets, we saw a strong first half even compared to 2020 and a strong second quarter, albeit with more normal seasonal impact."

We expect the company to release more reserves as the economy strengthens further over the balance of the year and into 2022, and management thinks expenses will moderate somewhat in the back half of 2021, helping BAC get closer to its $14 billion target. The company hasn't changed the share buyback authorization or dividend payment amount as a result of Q2 results, although Mr. Moynihan said, "…the first quarter in many that we've been able to — in forever

that we've been able to go back and actually use excess capital based on our earnings power and our Board's discretion. So you should expect us to get back in the share buyback game." BAC remains a sizable holding in many of our diversified portfolios as we continue to appreciate the bank's propensity to stretch its technological capability, though the position weight is a bit elevated. Shares trade at a very reasonable forward P/E multiple of 13 and offer a dividend yield of 1.9%. Our Target Price for BAC has been bumped up to $46.

Despite reporting another blowout quarter last week, shares of **Goldman Sachs Group** (GS – $364.80) fell almost 2% as investors sold off Financials across the board. GS reported a top line of $15.4 billion, which was more than 47% higher than expectations, and adjusted EPS of $15.02, more than 47% better than the consensus analyst estimate of $10.15. Combined with its sensational Q1, Goldman posted record net revenue for the first half of 2021. The highlights for Q2 included the investment bank generating its second highest quarterly net revenue ever, as was the case in Equity underwriting, Debt underwriting and Financial advisory. The company's Asset Management arm generated record quarterly net revenue, as did the Consumer & Wealth Management business.

THE PRUDENT SPECULATOR

GS – PHENOMENAL Q2 NUMBERS

Goldman Sachs

Financial Overview

Financial Results

$ in millions, except per share amounts	2Q21	vs. 1Q21	vs. 2Q20	2Q21 YTD	vs. 2Q20 YTD
Investment Banking	$ 3,609	-4%	36%	$ 7,380	52%
Global Markets	4,900	-35%	-32%	12,481	1%
Asset Management	5,132	11%	144%	9,746	386%
Consumer & Wealth Management	1,747	1%	28%	3,485	22%
Net revenues	$ 15,388	-13%	16%	$ 33,092	50%
Provision for credit losses	(92)	N.M.	N.M.	(162)	N.M.
Operating expenses	8,640	-8%	-17%	18,077	7%
Pre-tax earnings	6,840	-18%	430%	15,177	475%
Net earnings	5,486	-20%	N.M.	12,322	677%
Net earnings to common	$ 5,347	-20%	N.M.	$ 12,058	813%
Diluted EPS	$ 15.02	-19%	N.M.	$ 33.64	819%
ROE[1]	23.7%	-7.3pp	22.7pp	27.3%	24.0pp
ROTE[1]	25.1%	-7.8pp	24.1pp	28.9%	25.4pp
Efficiency Ratio[3]	56.1%	2.8pp	-22.2pp	54.6%	-22.0pp

Financial Overview Highlights

- 2Q21 results included EPS of $15.02 and ROE of 23.7%
  - 2Q21 net revenues were higher YoY, reflecting significantly higher net revenues in Asset Management, Investment Banking and Consumer & Wealth Management, partially offset by significantly lower net revenues in Global Markets
  - 2Q21 provision for credit losses was a net benefit of $92 million, including a reserve reduction driven by improvements in the broader economic backdrop (across all segments), partially offset by provisions related to portfolio growth (primarily in credit card loans)
  - 2Q21 operating expenses were lower YoY, due to significantly lower net provisions for litigation and regulatory proceedings (primarily in Investment Banking and Global Markets), partially offset by higher compensation and benefits expenses
- Strong first half performance as 2Q21 YTD results included EPS of $33.64 and ROE of 27.3%

Net Revenues by Segment ($ in millions)

3

Goldman CEO Dave Solomon stated, "Our second quarter performance and record revenues for the first half of the year demonstrate the strength of our client franchise and our continued

progress on our strategic priorities. While the economic recovery is underway, our clients and communities still face challenges in overcoming the pandemic. But, as always, I am proud of the dedication and resilience of our people, who have worked tirelessly to help our clients navigate the ever-changing market environment."

Although shares are up more than 38% this year, we see the stock as still attractively valued and believe that GS just received a shot in the arm on the heels of the latest Federal Reserve Stress Test. Passing with flying colors, Goldman announced that it would increase its quarterly dividend from $1.25 per share to $2.00. We also continue to like the healthy balance sheet and sound strategic repositioning. The build-out of its traditional banking and investment management businesses should serve shareholders well in the long run, as almost two-thirds of Goldman's revenue still comes from its investment banking and global markets trading business segments. We find it odd that shares aren't trading at much higher levels, especially considering that Goldman has delivered 90% of analyst's expected full-year 2021 adjusted earnings in just two quarters. We continue to like that the ultimate goal of Goldman's evolution is to change the trading and deal making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. The dividend yield is 2.2%, and our Target Price has been hiked to $436.

Despite the majority of its peers finishing in the red last week, shares of **Morgan Stanley** (MS – $91.25) bucked the trend and ended the week up 1%, thanks to a terrific quarterly earnings report. For Q2, MS delivered adjusted EPS of $1.89, more than 15% greater than forecasts looking for $1.64. MS realized 8% year-over-year net revenue growth driven by equity markets and investor activity. Investment banking reported solid year-over-year growth, as equity underwriting realized a 22% increase and M&A advisory fees were up 44%. However, debt underwriting dropped 45% against heightened debt issuances a year ago. Equity trading rose 22%, while FICC declined 45%, consistent with large bank peers. Wealth Management posted 30% revenue growth with E*Trade and 28% adjusted pretax margins, while Investment Management revenue doubled with the Eaton Vance purchase.

CEO James Gorman commented, "The firm delivered another very strong quarter, with contributions from all of our businesses. Our Wealth and Investment Management businesses attracted $120 billion in flows and Institutional Securities generated over $7 billion in revenues. With our transformed business model providing more stable and durable earnings, we have doubled our dividend and announced a $12 billion buyback as we move to return our excess capital to shareholders. Our global franchise is very well positioned to drive further growth."

We continue to like the diversifying acquisition of Eaton Vance and we also believe the recently closed purchase of E*Trade gives MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted wealth-management clients. In the near-term, we believe MS will benefit from continued strong capital market activities and we see the opportunity to take larger wallet share in wealth management. While financial stocks face headwinds in the low-interest-rate environment, we like MS's lower exposure to consumer and commercial loans, healthy balance sheet and relatively inexpensive valuation. Our Target Price has been lifted to $106.

Shares of **Citigroup** (C – $66.90) continued their recent struggle, falling more than 2% last week, despite the report of solid Q2 financial results, which were aided by a further release of credit loss reserves. Adjusted EPS came in at $2.85, more than 47% greater than the consensus analyst estimate of $1.94. While there is still pressure on net interest margins and yields, the bank has been able to shift some lower yield balances into higher-yielding securities, and some loan growth has begun to return. Citi's focus on consumer credit cards remains somewhat of a drag on revenue as balances and yields were generally lower year-over-year. That said, the bank benefited from much-lower card losses during the period.

New Citigroup CEO Jane Fraser commented, "The pace of the global recovery is exceeding earlier expectations and with it, consumer and corporate confidence is rising. We saw this across our businesses, as reflected in our performance in Investment Banking and Equities as well as markedly increased spending on our credit cards. While we have to be mindful of the unevenness in the recovery globally, we are optimistic about the momentum ahead."

"During the first half of the year, we returned nearly $7 billion in capital to our shareholders, the most that was permitted by the Federal Reserve. We ended the quarter with a Common Equity Tier One ratio of 11.9% and we intend to continue to return our excess capital, over and above the amount we need to make strategic investments. We are making progress on our strategy refresh across our consumer and institutional businesses. Our overarching goal is to increase the returns we generate and close the gap with our peers. We have set out to modernize our bank and want to achieve nothing less than excellence in our risk and control environment, our operations and our service to clients," Ms. Fraser concluded.

Conclusions

1H'21 results showed continued progress and solid momentum across the franchise

- Significant earnings with ~$14B of net income, including ~$6.3B reserve release
- Solid client engagement and strong underlying growth in fees across ICG including in TTS, Investment Banking, Private Bank and Securities Services
- Strong growth in GCB deposits, investments and purchase sales, albeit with lower rates and card loan volumes

Maintaining strong capital position and returning capital to shareholders

- Common Equity Tier 1 Capital Ratio of 11.9%(1)
- Tangible Book Value per share increased 9% year-over-year to $77.87(2)
- Returned ~$7B of capital to common shareholders and repurchased 63 million shares YTD

Key execution priorities for Citi

- Strengthening risk and control environment and achieving operational excellence
- Continuing work on strategy refresh and investing to build a stronger company for the future
- Improving returns for shareholders
- Positioning Citi for increased capital return over time

Note:
13 (1) Preliminary. For additional information on this measure, please refer to Slide 30.
(2) Citi's Tangible Book Value per Share is a non-GAAP financial measure. For additional information, please refer to Slide 31.

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While Citi must continue to get its house in order, we are constructive on the fact the company is trying to be more effective and efficient in fewer markets, versus being mediocre in many. Stimulus and potential infrastructure spending under the current administration could be a boon to lenders like Citi in the nearer term. A longer-term return to improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business) will be quite beneficial, we think, for shareholders. We still like that C has good leverage towards the U.S. economy, while also having the potential to show outsized benefits versus its peers from growth abroad. Our Target Price for C is $103 and the yield is 3.0%.

Despite a strong financial showing in Q2, shares of **Truist Financial** (TFC – $54.39) slipped last week. The southeastern U.S. regional banking powerhouse reported adjusted EPS of $1.55 per share (vs. $1.14 est.). While net interest margin continues to be under some mild pressure, Q2 results highlighted TFC's revenue diversity. CEO Kelly King explained, "Truist produced record adjusted earnings for the second quarter, driven by a negative loan loss provision and strong fee income, including record insurance commissions, wealth management income, card and payment related fees and commercial real estate related income. In addition to this strong performance, earlier this month we successfully completed the acquisition of Constellation Affiliated Partners through our CRC Group insurance subsidiary. The acquisition is CRC's eighth in the last 18 months and more than doubles our specialty and programs business. The acquisition makes CRC

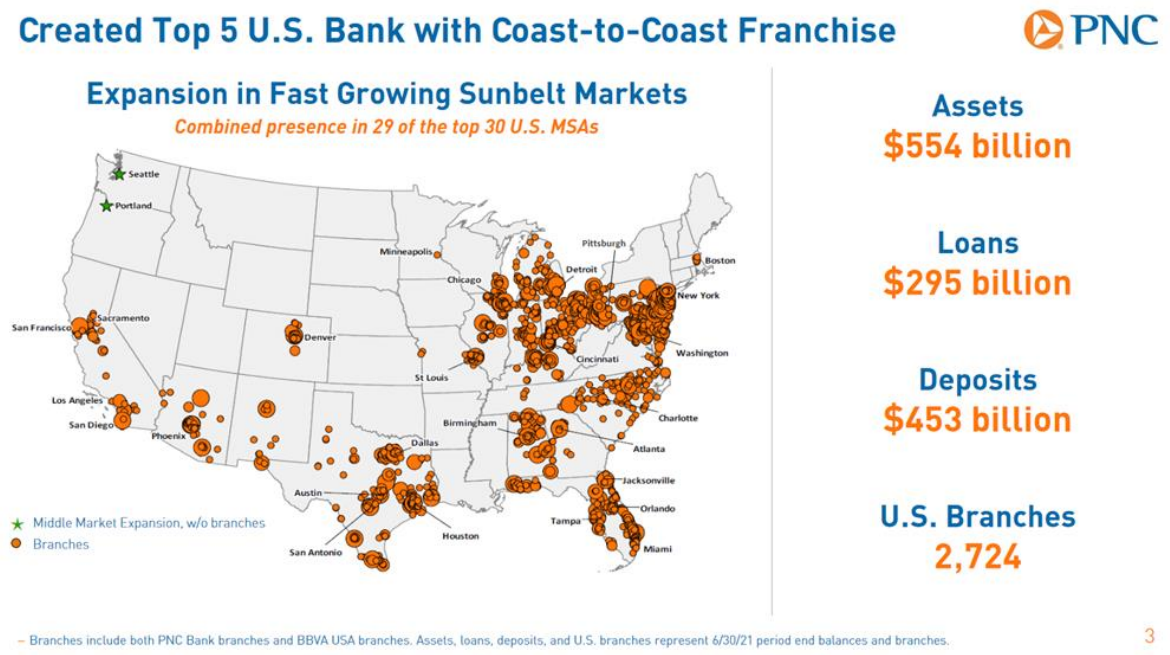
one of the largest program managers in North America and continues to drive growth in our largest fee income generating business."

Mr. King added, "We were also excited to announce the results of the CCAR stress testing process in June. Truist was one of the top performers compared with our peers that were subject to the process with the second lowest loan loss rate among our peers under the severely adverse stress scenario. We also announced plans to propose a 7% increase in our dividend to a record $0.48 as part of our mission to continue providing a stable and growing dividend for our shareholders. In addition, given our progress towards a successful conversion, an improving economic outlook, and successful CCAR results, we plan to lower our near-term CET1 target to approximately 9.75%, giving us additional capacity to deploy incremental capital on behalf of our clients and shareholders."

We continue to be constructive on Truist and believe there is appealing upside left in the shares. We like the conservative lending culture that BB&T brought to its marriage with SunTrust, and we appreciate the competitive brands that both companies maintained, while we continue to think plenty of cost savings remain to be had from the union. TFC offers an attractive dividend yield of 3.3% and trades at a forward P/E below 12. We've adjusted our Target Price upward to $72.

Shares of **PNC Financial** (PNC – $183.43) dipped more than 3% last week, despite the reporting of much-better-than-expected Q2 financial results. Adjusted EPS came in at $4.50, more than 65% greater than the consensus analyst estimate of $2.71. The numbers were bolstered by PNC closing its acquisition of BBVA USA earlier than expected. Revenue increased 11%, driven by the acquisition and solid PNC legacy noninterest income growth. Because of the combination, total loans and deposits increased 24% and 21%, respectively. While the figures were "noisy" as the former BBVA business was on the books for only one month of the quarter, PNC's standalone net interest income was relatively flat in the second quarter after falling for the prior three quarters. Standalone PNC fee income increased 12% on the back of higher consumer and corporate services.

CEO Bill Demchak stated, "PNC had a successful second quarter. We closed on our acquisition of BBVA USA earlier than anticipated, organically grew fee income, deployed excess liquidity through securities purchases and maintained solid credit quality metrics. Underscoring our strong financial position and commitment to capital return, our board recently approved a $0.10 per share, or 9%, increase to our common stock dividend and announced $2.9 billion in share repurchase programs. Looking ahead, we are working towards a successful conversion of BBVA USA and are excited about the substantial opportunities for growth and efficiency improvements as we move forward as a combined company."



The BBVA USA acquisition gives PNC access to 29 of the top 30 Metropolitan Statistical Areas across the country and provides a runway for prolonged growth in these new markets. We think that shareholders will benefit from the combination's cost synergies, with revenue growth potential only adding more value over time. The dividend yield for PNC is a healthy 2.7% and our Target Price has been hiked to $214.

Delta Air Lines (DAL – $40.06) reported Q2 2021 results that showed a shallower loss than expected. The air carrier showed red ink of $1.07 per share in Q2, compared with the analyst consensus of $1.42. Revenue of $7.13 billion was far ahead of the $1.47 billion Delta earned in the same period last year, but remained well short of the $12.54 billion that flowed in for Q2 2019.

CEO Ed Bastian commented, "We're well into the summer travel season. And if you've been to the airport in recent weeks, you've seen firsthand how travelers are reclaiming their lives and returning to the skies. This increase in demand drove a better-than-expected revenue outcome for us in the June quarter, with revenues down 49% versus 2019, resulting in a $6.3 billion total revenue. This was an impressive 76% sequential improvement from the March quarter. More encouragingly, the momentum is continuing as we exited June with a demand environment that's accelerating. Domestic leisure demand and yields are above June quarter 2019 levels, and we see

clear signs of business in international demand recovery heading into the fall. Through the crisis, we've earned an unprecedented level of brand loyalty and trust, thanks to the world-class service, operational reliability and innovation that drives the Delta difference. And our commitment to safety, cleanliness and wellness is as strong as ever."

Mr. Bastian continued, "With June profitability in the books (a pretax margin in the high single digits), we're now in the restoration phase of recovery and focused on harnessing the power of our differentiated brand and our resilient competitive advantages to drive sustainable profitability in the second half 2021 and enable long-term value creation. Specifically, for the September quarter, we expect a mid-single-digit pretax margin as demand continues to improve with the return of corporate travel and gradual reopening of international markets. We are starting to see signs of a resurgence of business and international travel, both of which are supporting the next leg of the revenue recovery. And we're well positioned to take advantage of both, with leading domestic corporate share and a strong global network."

Mr. Bastian concluded, "We are starting to see signs of a resurgence of business and international travel, both of which are supporting the next leg of the revenue recovery. And we're well positioned to take advantage of both, with leading domestic corporate share and a strong global network."

In anticipation of a strong return to the skies, Delta has begun hiring for frontline and reservations employees, and purchased 7 more Airbus A350s and 29 Boeing 737-900ERs. The airline also exercised an option for 25 Airbus A321neos in April and expects to continue to drop its average cost per seat. Compared to September 2019, Delta expects lower capacity by 28% to 30% and total revenue 30% to 35% lower. DAL is also looking to bring back a bigger European schedule and Mr. Bastian has been pushing (privately and publicly) for countries to begin opening their borders to foreign, vaccinated travelers. The distribution of vaccines underway, we believe there is hope that normalcy will soon return. Our Target Price for DAL is now $65.