Market Commentary Monday, July 26, 2021

July 25, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Sold TNP & AXS
Market Timing – Average Investor Fares Poorly
Financial Press Folly – Short-Term Market Movement Rationale
EPS – Terrific Q2 Results
Econ Data – Mixed Numbers, but Outlook Strong
Interest Rates – Lower Bond Yields Make Equities, Especially Dividend Payers, More Attractive
Contrarian Sentiment – Liking that Folks are Pessimistic About Equities
Stock News – Updates on WHR, INTC, IBM, STX, CMA, SYF, COF, MAN, JNJ, MCK, CAH, ANTM, SNA & CE

Market Review

A bit of housekeeping before this week's missive. As discussed in our *Sales Alert* on Thursday, July 15, we sold 1,363 and 263 shares of **Tsakos Energy Navigation** (TNP – $7.55) respectively held in TPS Portfolio and Buckingham Portfolio at $7.25 per share on Monday, July 19. We will also use that $7.25 price to close out the 313 and 111 share positions respectively held in our hypothetical Millennium Portfolio and PruFolio.

While we did not hold any **Axis Capital** (AXS – $49.09) shares in our real-money newsletter portfolios, we will close out the 154 and 444 share positions respectively held in Millennium Portfolio and PruFolio at $49.44 per share, also on Monday, July 19.

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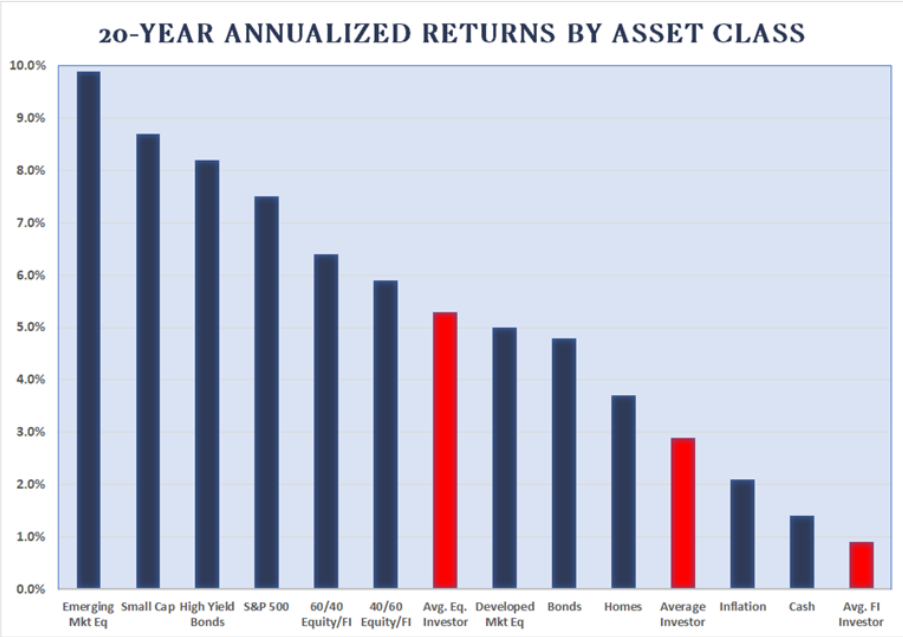
Perhaps your Editor's favorite investment quotation is attributed to Lao Tzu, "If you do not change direction, you may end up where you are heading." Sadly, many ride an emotional roller-coaster, abandoning their long-term plans when they would have been much better off staying put, with the zigs and zags so costly that the average investor does not come close to enjoying the returns offered by the financial markets.

No doubt, it is not easy to suppress the twin emotions of fear and greed, even as legendary investor Warren Buffett states, "The market, like the Lord, helps those who help themselves. But unlike the Lord, the market does not forgive those who know not what they do."

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT



From 2001 to 2020. Emerging Mkt Eq: MSCI EM Index; Small Cap: Russell 2000 Index; High Yield Bonds: Bloomberg Barclays Global HY Index; S&P 500: Standard & Poor's 500 Index; 60/40 Equity/FI: Annually Rebalanced 60% S&P 500 & 40% Bloomberg Barclays U.S. Aggregate Bond Index; 40/60 Equity/FI: Annually Rebalanced 40% S&P 500 & 60% Bloomberg Barclays U.S. Aggregate Bond Index; Avg. Eq. Investor: DALBAR analysis of average equity fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior Developed Mkt Eq: MSCI EAFE Index; Bonds: Bloomberg Barclays U.S. Aggregate Bond Index; Homes: Median Sale Price of Existing Single-Family Homes; Average Investor: DALBAR analysis of average asset allocation fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior; Inflation: CPI; Cash: Bloomberg Barclays 1-3m Treasury. Avg. FI Investor: DALBAR analysis of average bond fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

Alas, per findings from research firm DALBAR, emotional decision-making and lousy market timing have cost folks dearly, with the average equity fund investor trailing the S&P 500 by 220 basis points **per annum** over the last 20 years, and the comparisons even worse for asset allocation and fixed income investors.

Unfortunately, the financial press, and the supposed experts who are often cited, usually offer little in the way of assistance for those with a long-term orientation. For example, the equity markets plunged this past Monday, with the Dow Jones Industrial Average down more than 900 points late in the trading session, hitting a low of 33742. Not surprisingly, the four different pundits quoted by *The Wall Street Journal* in the headline story in Tuesday's edition offered seemingly logical arguments for the selloff.

****** TUESDAY, JULY 20, 2021 - VOL. CCLXXVIII NO. 16 WSJ.com ★★★★ $4.00

SDAQ 14274.98 ▼ 1.1% STOXX 600 444.29 ▼ 2.3% 10-YR. TREAS. ▲ 1 4/32, yield 1.181% OIL $66.42 ▼ $5.39 GOLD $1,808.70 ▼ $5.80 EURO $1.1800 YEN 109.45

Markets Reel Over Delta Variant

Dow declines 2.1% and oil sinks 7.5% on worry about potential risks to economic recovery

By Gunjan Banerji And Akane Otani

The Dow Jones Industrial Average declined more than 700 points on Monday—its worst session in nearly nine months—and investors piled into government bonds as anxiety mounted over the spread of the Delta coronavirus variant and its potential impact on the global economy.

The blue-chip index fell 725.81 points, or 2.1%, at 33962.04, logging its steepest decline since Oct. 28. Meanwhile, the yield on the 10-year U.S. Treasury note, which falls as bond prices rise, sunk to its lowest level since February. And in another sign of fear, U.S. crude oil prices slid 7.5%—marking their worst session since September.

Behind the rout, investors said, is a growing list of concerns about the recovery. The Delta coronavirus variant has spread rapidly, reigniting the debate in several countries about whether governments should resume lockdowns and curb activity. Meanwhile, inflation has accelerated faster than many anticipated, and strained U.S.-China relations have put pressure on trillions of dollars worth of U.S.-listed Chinese companies.

Many money managers believe the global economy will be able to keep growing. They just don't know how quickly—and whether the gains will be enough to keep increasingly pricey-looking markets rising after a banner first half.

"The market is saying the

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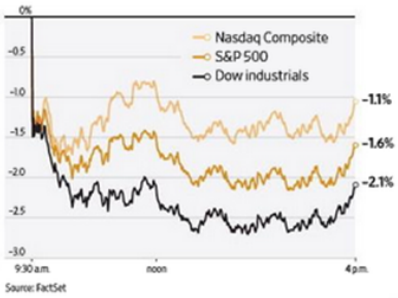
◆ Investors run for shelter in bonds B1

Index performance, Monday



Source: FactSet

"The market is saying the economy is going to slow down fairly significantly in the next weeks or months," said Zhiwei Ren, a portfolio manager at Penn Mutual Asset Management.

"That's what the market has been doing...starting to digest peak growth rates and realizing these growth rates are unsustainable," said John Porter, chief investment officer of equities at Mellon Investments Corp.

"Last week we had high inflation readings. Now we have concerns that the rise in Covid cases is dimming the economic outlook. High inflation and lower economic growth is not a good combination," said Dave Donabedian, chief investment officer of CIBC Private Wealth Management,

"People are worried about inflation but also a growth scare," said Giorgio Caputo, a portfolio manager at J O Hambro Capital Management. "You've never had a modern economy that's reopened after a pandemic."

To be sure, very few will be quoted saying, "I don't know," as the rationale for a short-term market movement, but that is often the best justification…as stock prices rebounded over the next four days, so much so that the Dow closed Friday at an all-time high above 35000,…

PERSPECTIVE: MANAGING EMOTIONS A CHALLENGE EVEN FOR 'EINSTEIN'

Given that he has had major health issues, it was nice to see Peter Tuchman's smiling face as the Dow Jones Industrial Average closed above 35,000 for the first time on 7.23.21.

Of course, Wall Street's most photographed trader (per *Marketwatch*) may be no better visual aid to remind folks that investing is an emotional roller coaster. For example, in 2019, Mr. Tuchman was positively giddy about the Dow breaking through 27,000 in July, yet a few weeks later he had seemingly pulled all his hair out as stocks plunged after an escalation in the trade skirmish.

…evidently because there was an overnight reassessment of the long-term dangers of the COVID-19 Delta variant, for lack of a better reason.

DELTA VARIANT: HIGHLY INFECTIOUS BUT VACCINES STILL VERY EFFECTIVE

STAT

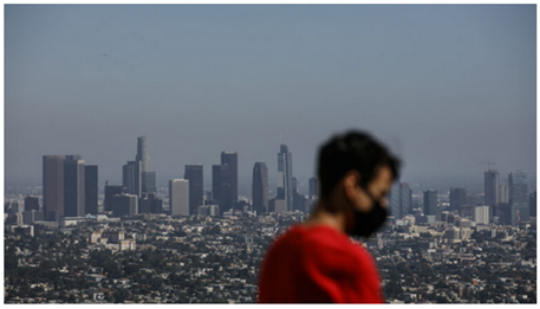
TOPICS OPINION TEAM EVENTS NEWSLETTERS REPORTS VIDEO PODCASTS

TRENDING: CORONAVIRUS PHARMALOT HEALTH FIRST OPINION

HEALTH

Why is Delta such a big deal? And other burning questions about the next phase of the Covid-19 pandemic

By Andrew Joseph July 23, 2021 Reprints



Izzy Galvan, 20, wears a face mask while visiting the Griffith Observatory overlooking downtown Los Angeles this week. JAE C. HONG/AP

The rise of the Delta variant has driven new Covid-19 outbreaks, rattled markets, and reminded us that — for all the progress made in the fight against the pandemic — vulnerabilities persist.

In the United States, where the variant is estimated to be causing more than 4 out of 5 new infections, largely among the unvaccinated, the outbreaks in places like Arkansas and Missouri have once again placed health systems under stress. They've also led to more questions about whether Delta even poses a threat to people who are vaccinated and complicated the discussion about what precautions schools need to reopen fully in the fall.

The most important takeaway: Even in the face of Delta, vaccines are still doing what they're designed to do. That is, they're defanging the threat of a Covid-19 infection, protecting people from getting so sick they have to be hospitalized and from death. Pretty much nothing in medicine is absolute, so a tiny fraction of vaccinated people will still wind up getting really sick, but there's a clear reason why some 97% to 99% of current hospitalizations and deaths are occurring among those who are unvaccinated.

Covid-19 isn't going to be eradicated, but that was the reality before Delta came around.

Remember, the long game with the virus is that our bodies become so used to recognizing it and warding it off that, over time, it becomes little more than a nuisance. With each exposure to the virus, either through an infection or an exposure-mimicking vaccine, our bodies get retrained to fight it. Eventually, SARS-CoV-2 is likely to join the ranks of respiratory viruses that cause occasional colds, with rare exceptions of serious illness.

In a way, we've started the journey to making the coronavirus less of a big deal. Given how many people remain unprotected, we've still got a long way to go. But in areas where lots of people are protected — including the vast majority of older adults, who are most likely to die from Covid-19 — even if infections are going up, deaths are not. It's the first step toward putting the pandemic behind us.

--Stat News

Of course, the media again provided arguably valid explanations for the rally,…

STOCKS REBOUND THE REST OF THE WEEK – AND THE REASONS ARE OBVIOUS

Stocks Rebound After Steep Decline

S&P 500 logs best day since March as drop from virus concerns spurs buying interest

By Karen Langley And Anna Hirtenstein

U.S. stock prices rose sharply, with the S&P 500 recording its best day in nearly four months, as investors rushed in to buy shares that had been knocked down in Monday's steep selloff.

The rally suggested that even as the rapidly spreading Delta variant of the coronavirus casts a shadow over the nation's economic outlook, many investors still see few attractive alternatives to stocks.

"A lot of our client conversations have really been people trying to look to find time to put money to work," said Mike Stritch, chief investment officer at BMO Wealth Management. "People step in, and they don't want to get caught missing an opportunity to buy at a few points lower."

THE WALL STREET JOURNAL. Thursday, July 22, 2021 | B1

S&P 4358.69 ▲ 0.82% S&P FIN ▲ 1.71% S&P IT ▲ 0.98% DJ TRANS ▲ 0.97% WSJ $ IDX ▼ 0.20% LIBOR 3M 0.138 NIKKEI 27548.00 ▲ 0.58% See more at WSJ.com/Markets

Stocks Rally on Strong Earnings

By Joe Wallace And Paul Vigna

U.S. stocks rose Wednesday, extending the previous session's rebound, as investors turned their focus to the banner start to corporate earnings season.

The S&P 500 climbed 35.63 points, or 0.8%, to 4358.69, a day after the broad market gauge posted its biggest one-day gain since late March. The two-day advance helped unwind Monday's steep drop and leaves the index within 0.6% of its record.

The Dow Jones Industrial Average rose 286.01 points, or 0.8%, to 34798.00, and the Nasdaq Composite gained 133.08 points, or 0.9%, to 14631.95.

A strong start to earnings season has helped buoy sentiment after Monday's steep selloff sparked by concerns over rising coronavirus cases. The market recently has been lurching from one fear to the next, said Yung-Yu Ma, chief investment strategist at BMO Wealth Management, and earnings have given investors something positive on which to focus.

"It's nice to see some stabilization," he said.

The renewed risk appetite boosted small-cap stocks, too, which had fallen further than their large-cap brethren lately. The Russell 2000 surged 39.75 points, or 1.8%, to 2234.04, though it remains down 3.3% in July.

Many money managers say they see few other places than stocks to deploy cash, with yields on government and corporate bonds trading at depressed levels. Some remain concerned that the Delta variant will take some steam out of the global economic rebound, and they expect a jittery stretch of trading heading into the peak summer vacation period.

The bond market went a little "nutso" after the Federal Reserve started talking about interest rate increases, said Nancy Davis, founder of Quadratic Capital Management, driving long-term government bond yields higher. While things have settled down since the 10-year yield approached 1.75% in March, she said this environment should have investors on guard.

There are some "stagflation"-like impulses in the economy right now, she said, between still-high unemployment, labor shortages, supply shortages and rising inflation. If that takes hold, it could cause problems for investors in stocks and bonds and especially the traditional 60/40 portfolio model.

"It's a prudent time for investors to be thinking about what if stagflation happens," she said.

The yield on 10-year Treasury notes rose to 1.279% from 1.208% Tuesday, its largest one-day jump since June 16. Yields move in the opposite direction to bond prices and have skidded in recent weeks in a sign of waning concerns about a prolonged overshoot in inflation.

Yields on government bonds are likely to rise back to those March highs, said Jonas Goltermann, senior markets economist at Capital Economics, but it will probably prompt investors to shift money back into stocks that benefit from the reopening of the economy. "The outlook in an absolute sense is still pretty good," he said. "This is a rebound from a big recession."

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Yields Fall In Sign Inflation Isn't That Big a Fear

By Sam Goldfarb

The monthslong decline in bond yields exemplifies investors' belief that inflation likely isn't the biggest problem facing the U.S. and global economy.

Monday's sharp selloff in major U.S. stock indexes highlighted investors' mounting concern that the biggest risk to markets now is under-

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THE WALL STREET JOURNAL. Friday, July 23, 2021 | B11

MARKETS

Stocks Gain as Earnings Top Forecasts

By Anna Hirtenstein And Akane Otani

U.S. stocks edged higher in a quiet session, keeping major indexes on course to close out the week with gains.

Stocks have THURSDAY'S MARKETS past three days — after dropping sharply Monday on fears that the spread of the Delta variant could force countries to lock down their economies again.

Major indexes are back within less than 1% of their records.

Many investors attribute the market's resilience in part to upbeat results from the latest corporate earnings season.

So far, with results in from around a fifth of S&P 500 companies, the majority of corporations have beaten analysts' expectations, according to FactSet.

"The earnings results have continued to be strong and guidance is showing that the delta variant isn't impacting the recovery, so far at least," said Esty Dwek, head of global market strategy at Natixis Investment Managers. "That is giving confidence to the market that the recovery can continue."

The Dow Jones Industrial Average rose 25.35 points, or 0.1%, to 34823.35. The S&P 500 climbed 8.79 points, or 0.2%, to 4367.48 and the Nasdaq Composite advanced 52.64 points, or 0.4%, to 14684.60.

Domino's Pizza jumped $68.45, or 15%, to $538.82 after reporting earnings that beat estimates and disclosing a new share-repurchase program.

Semiconductor company Texas Instruments slipped $10.33, or 5.3%, to $183.16 after it signaled a likely slowdown in growth in the third quarter.

Casino operator Las Vegas Sands declined $2.20, or 4.5%, to $47.22 after it reported revenue that missed analysts' estimates and a bigger loss than expected.

Earlier Thursday, the Labor Department's latest data on jobless claims, viewed as a proxy for layoffs, showed that 419,000 people applied for unemployment insurance last week. That was up from the preceding week. Economists had been expecting claims to fall to a new pandemic low.

"Some choppiness is to be expected," said Sebastien Galy, a macro strategist at Nordea Asset Management.

The report suggests the Federal Reserve can continue offering monetary stimulus for longer, he added. "The choppiness allows them not to be pressured into tapering," he said.

In the fixed-income market, government bonds strengthened, with the yield on the U.S. 10-year Treasury note edging lower to 1.264% from 1.279% Wednesday. Yields fall as bond prices rise.

Overseas, the pan-continental Stoxx Europe 600 added 0.6%, rising for a third straight day, after the European Central Bank left key interest rates unchanged in its latest monetary-policy decision.

The bank added that it may keep rates at current levels or below until it sees inflation stabilizing at 2%.

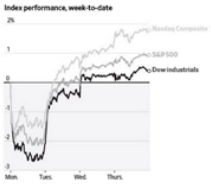
Benchmark Italian, Spanish and Portuguese government bonds rallied on the prospect of longer-term monetary support.

"The language used by the ECB is now more forceful, in the sense that it is tying interest rates to its 2% target to show its strength," said Xian Chan, chief investment officer at HSBC Wealth Management. "This news should be a short-term positive for European stocks and the overall recovery trade, providing additional support especially amid rising nerves over the Delta variant."

Among European equities, Unilever shed 5.9% after positing a decrease in pretax profit for the first half of the year.

Early Friday, the Shanghai Composite Index was down 0.5% and Hong Kong's Hang Seng Index was down 0.9%. Japanese markets were closed for a holiday. U.S. stock futures were up 0.2%.

Index performance, week-to-date



Source: FactSet

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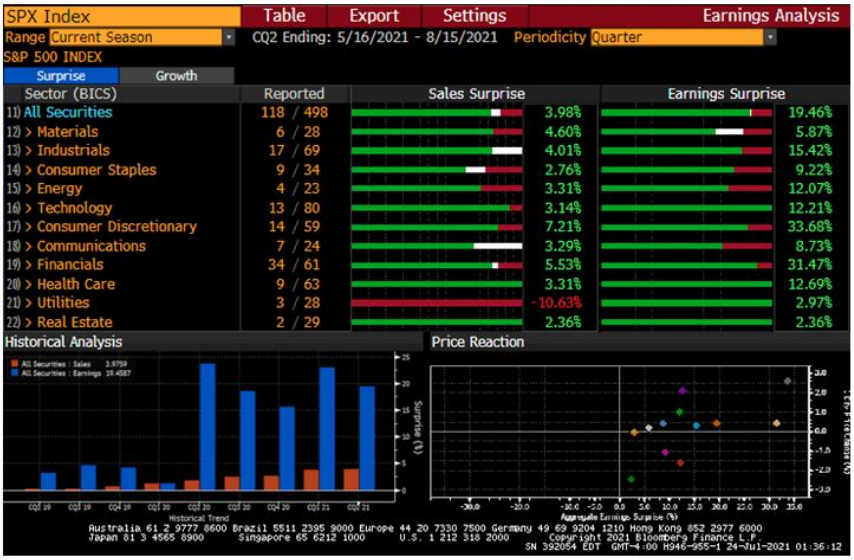
…but factors such as strong corporate earnings were just a continuation of what was seen last week…and earlier in July and last quarter,…

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 analyst projections that are still too pessimistic in their top- and bottom-line estimates. It is early, but 87.3% of S&P 500 companies topped EPS expectations and a very-high 81.4% 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

…while the outlook for near-term economic growth held steady,…

THE PRUDENT SPECULATOR

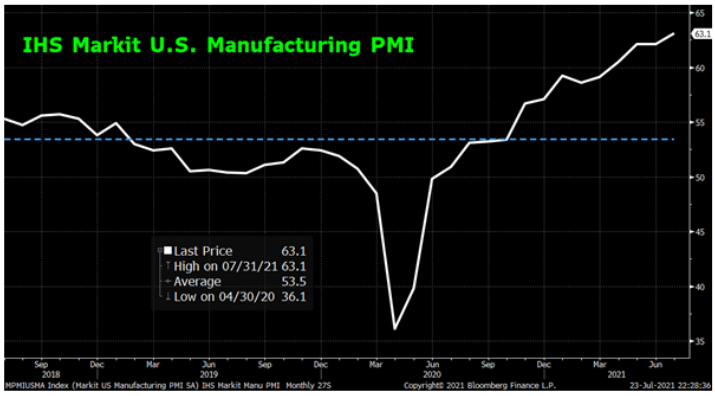
SENSATIONAL U.S. GDP GROWTH ESTIMATED FOR Q2

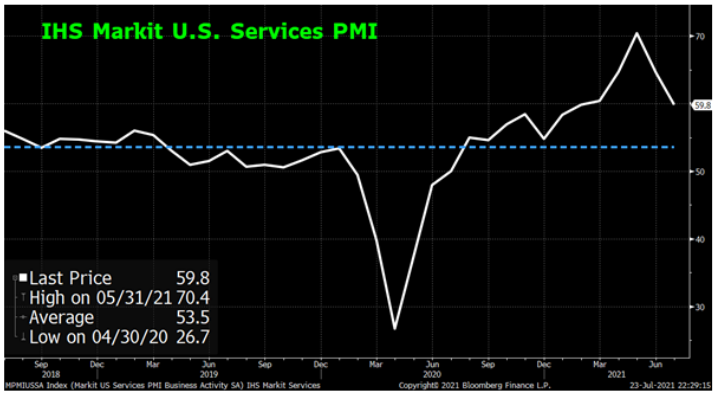
While Q1 2021 saw an acceleration of the economic rebound, the Atlanta Fed is now projecting a 7.6% increase for Q2 2021 GDP on an annualized basis, with the guess up from 7.5% the week prior.

…with mixed readings from IHS Markit on the health of the manufacturing and services sectors,…

THE PRUDENT SPECULATOR

MIXED IHS MARKIT PMI FIGURES IN JULY



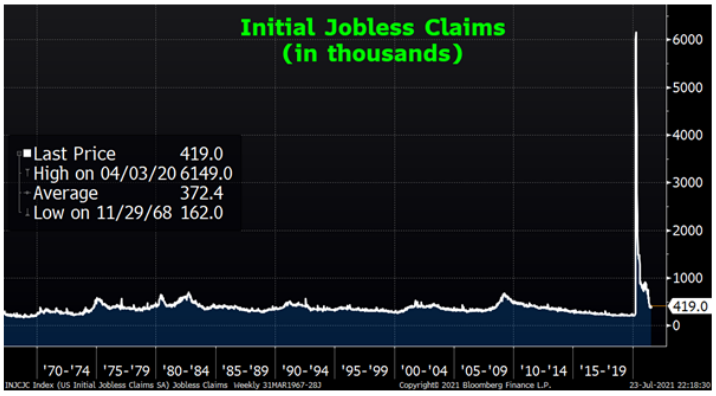


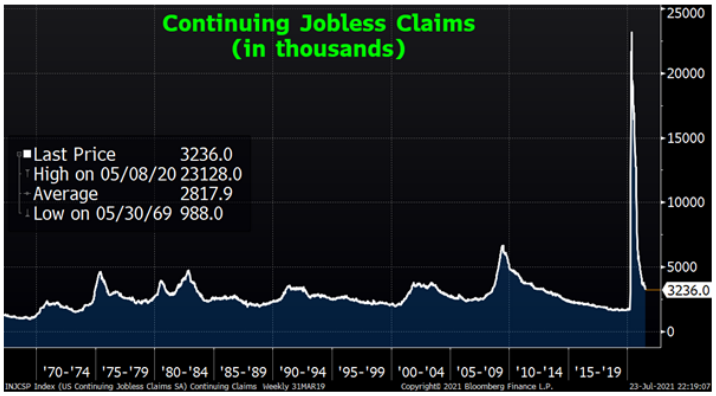
IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in July came in at 63.1 and 59.8, respectively, the former hitting a record high for the relatively young data series, even as the latter dipped further from the May peak. IHS stated, "The provisional PMI data for July point to the pace of economic growth slowing for a second successive month, though importantly this cooling has followed an unprecedented growth spurt in May."

…as well as the latest numbers on the jobs situation,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS RISE BUT CONTINUING CLAIMS DIP IN THE LATEST WEEK

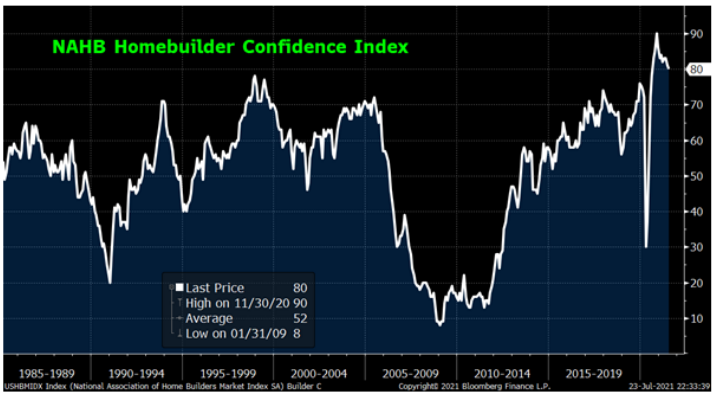


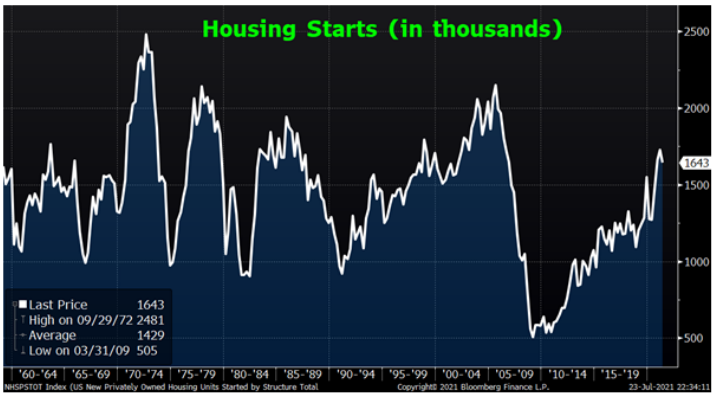


With auto industry applications the main culprit, the jobs market recovery weakened in the latest week, as new filings for unemployment benefits for the period ended July 17 came in at a seasonally adjusted 419,000, up 51,000 from the week prior and well above expectations. Continuing claims filed through state programs edged lower to 3.24 million, a pandemic low, though there have been more than 85 million jobless applications filed over the last 70 weeks.

…and the housing market.

SOLID HOUSING STATS





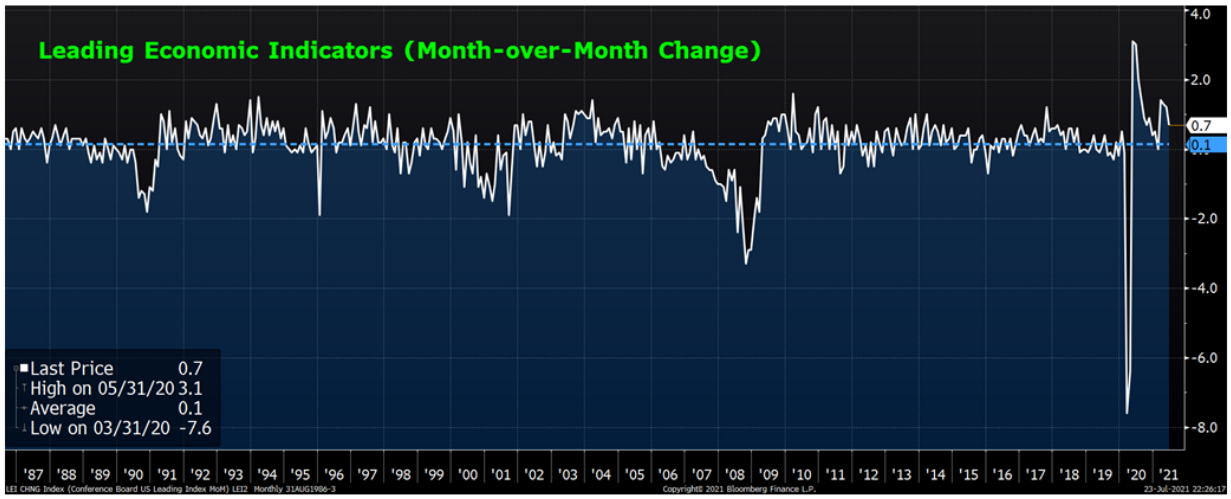
The National Association of Home Builders' monthly confidence index for July inched down to 80, a sky-high level, even as it does mark a continued retreat from November's record tally of 90 on the 35-year-old gauge. No doubt, very low mortgage rates are supporting the housing market and despite shortages and higher prices for materials, builders last month began construction of new homes at a seasonally adjusted annual pace of 1.64 million.

The important June Leading Economic Index from the Conference Board came in two-tenths of a point below expectations with a gain of 0.7%, but the outlook for U.S. economic growth this year and next remains very favorable.

THE PRUDENT SPECULATOR

LEI JUMPS AGAIN – 6.6% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index rose by 0.7% in June. The keeper of the metric stated, "While month-over-month growth slowed somewhat in June, the LEI's overall upward trend—which started with the end of the pandemic-induced recession in April 2020—accelerated further in Q2. The Conference Board still forecasts year-over-year real GDP growth of 6.6 percent for 2021 and a healthy 3.8 percent for 2022."



With the heightened volatility over the past five days providing yet another reminder that the secret to success in stocks is not to get scared out of them,…

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%	112.7%	989	27	3.4	3/23/2020	7/23/2021
17.5%	67.7%	578	39	2.3	3/23/2020	7/23/2021
15.0%	67.3%	562	45	2.0	3/23/2020	7/23/2021
12.5%	44.8%	338	72	1.3	3/23/2020	7/23/2021
10.0%	35.3%	247	98	0.9	3/23/2020	7/23/2021
7.5%	23.7%	149	157	0.6	9/23/2020	7/23/2021
5.0%	14.8%	73	306	0.3	10/30/2020	7/23/2021

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 7.23.21. 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%

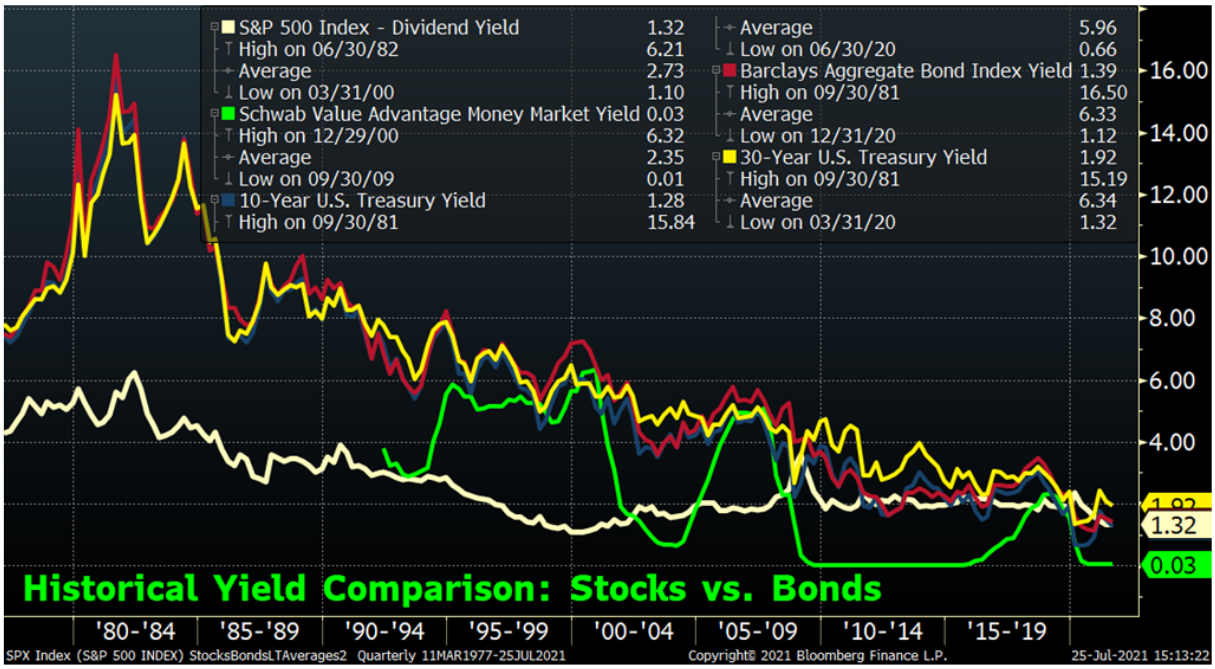
From 06.30.27 through 05.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

…nothing that happened last week alters our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, especially given the extraordinarily low interest rate climate,…

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 (1.32%) 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**!

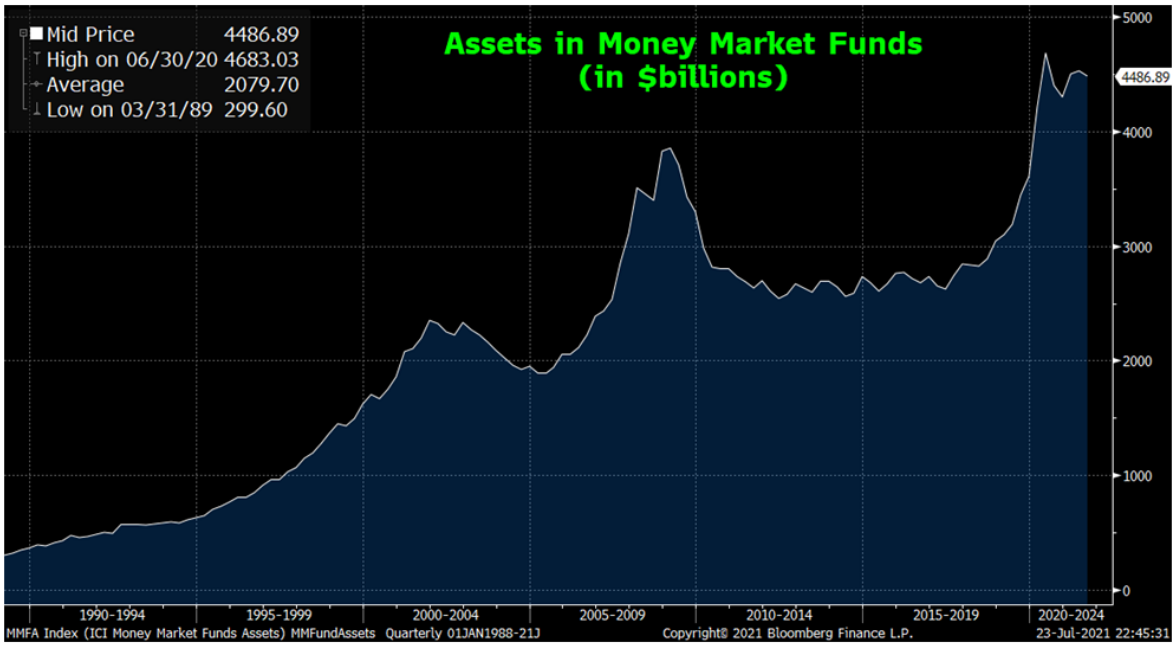


…where more than $4 trillion is hiding out in the safety of incredibly low-yielding money market funds,…

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.



…and a whopping $15.9 trillion around the world is "invested" in negative yielding government debt.

THE PRUDENT SPECULATOR

NEGATIVE YIELDING GOVERNMENT BONDS

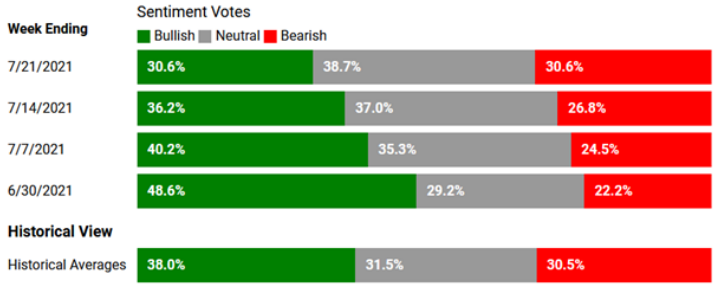
Incredibly, investors around the world continue to love government debt, despite losses this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt 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.

Further, we note that pessimism toward equities, despite record closes on the Dow and S&P 500, rose considerably in the latest week,…

AAII SENTIMENT – BULLISHNESS CONTRACTS & BEARISHNESS EXPANDS

AAII Investor Sentiment Survey

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



AAII Bull-Bear Spread

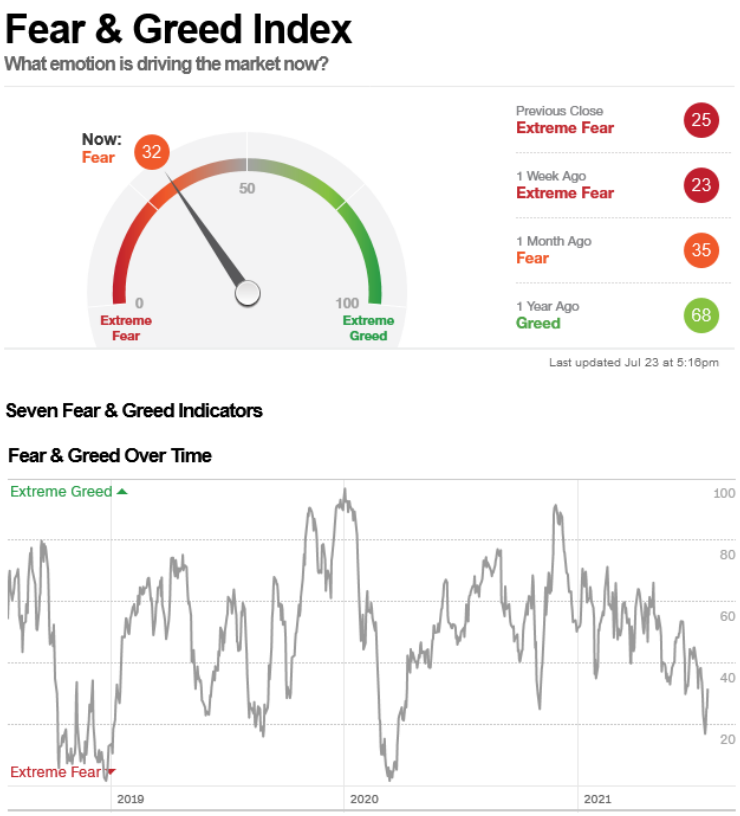
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 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	902	0.27%	0.23%	1.27%	1.14%	3.69%	3.30%	7.20%	6.45%
ABOVE	8.1	62.9	869	0.17%	0.15%	0.50%	0.42%	1.91%	1.65%	4.46%	3.99%
Ten Groupings of 1771 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	180	0.06%	0.03%	1.10%	1.01%	2.98%	2.63%	6.32%	5.79%
5	3.0	8.0	191	0.04%	0.02%	0.65%	0.56%	2.46%	2.21%	4.74%	4.22%
6	8.1	12.2	160	0.11%	0.09%	0.32%	0.19%	1.44%	1.20%	4.50%	4.01%
7	12.2	16.6	177	0.20%	0.18%	0.76%	0.67%	2.55%	2.31%	5.24%	4.81%
8	16.7	22.0	182	0.16%	0.14%	0.71%	0.63%	1.99%	1.72%	5.83%	5.41%
9	22.0	29.2	172	0.06%	0.05%	0.37%	0.28%	1.97%	1.69%	4.04%	3.47%
10	29.2	62.9	178	0.29%	0.27%	0.34%	0.27%	1.55%	1.32%	2.65%	2.21%

From 07.31.87 through 7.22.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 5.6-point drop in the number of Bulls in the latest AAII Sentiment Survey released on Wednesday evening, July 21, 2021, was a positive, especially as the flat (0.0%) Bull-Bear spread is well below the historical average.

…with fear still the dominant emotion!

FEAR & GREED INDEX…POINTED TOWARD FEAR DESPITE STOCK INDEX 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 Put and Call Options, Stock Price Strength and Stock Price Breadth, and a Fear tally for Safe Haven Demand, were only partially offset by Greed in Market Momentum and Junk Bond Demand.

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 more than a few of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices.

Despite reporting a fantastic quarter and a surprisingly robust jump in its outlook, shares of **Whirlpool** (WHR – $219.52) ended slightly down last week as investors grew concerned about a continued rise in input costs for the appliance maker. For Q2, adjusted earnings of $6.64 per share, easily outpaced the consensus estimate of $5.90. Revenue of $5.32 billion was almost 6% more than the average forecast, as net sales in North America rose 22%, EMEA jumped 39% and Latin America soared 73%, while net sales in Asia dipped 4%. Management announced that it was increasing its full-year sales growth projection from 13% to 16%. The new forecast for adjusted EPS for 2021 is $26.00 per share, up from a range of $22.50 to $23.50. Free cash flow

for the full-year had been projected to be around $1.25 billion, but now is expected to come in at $1.7 billion.

CEO Marc Bitzer commented, “We are significantly raising guidance to reflect the strength of our business driven by sustained consumer demand and the successful implementation of our previously announced cost-based pricing initiatives. Our Q2 results together with our record performance over the past three years impressively demonstrate our ability to perform in a volatile environment.”

CFO Jim Peters added, “We delivered double-digit revenue growth, expanded EBIT in every region across the globe, and generated significant cash flow while navigating a challenging macroeconomic environment. Looking ahead, we are confident in our ability to capitalize on the structural improvements we have made in our business over the last number of years and continue to drive shareholder value.”

Second-Quarter Results Highlights

Whirlpool CORPORATION

PROFITABLE GROWTH

Net Sales	YoY Change
$5.3B	31.7% (28.3% ex-currency)

MARGIN EXPANSION

Ongoing EBIT Margin[1]	YoY Change
11.4%	6.4 pts

CASH CONVERSION

Free Cash Flow[2]	FCF as % of Net Sales
$769M	7.2%

- Very strong year-over-year revenue growth of 32% driven by sustained consumer demand and cost-based price initiatives
- Execution of decisive actions delivering:
  - ✓ Ongoing EPS[1] of $6.64
  - ✓ Ongoing EBIT margin[1] of 11.4%, overcoming 400 bps of cost inflation
  - ✓ Strong free cash flow[2] generation of $769M
  - ✓ Year-over-year margin expansion in all regions
- Significantly increased full-year guidance from $22.50 - $23.50 to ~$26.00

4

We continue to believe there is more potential for WHR as the U.S. housing market remains very healthy. Despite increased input costs, we can see margins hanging in there, driven by higher selling prices with pass-through of higher material costs and fixed-cost structural reductions that should drive better profitability. Besides the North American market, the company continues to

have an opportunity to drive growth in its other global markets. WHR shares currently trade at just 9.5 times NTM expected EPS, and the dividend yield is 2.6%. Our Target Price for WHR has been hiked to $303.

Shares of **Intel** (INTC -$53.00) fell more than 5% on Friday after management comments on server chips and margins caused consternation among investors despite a better-than-expected Q2 report. Intel earned $1.28 per share in the quarter, better than the $1.07 estimate, while revenue was $18.5 billion, soundly ahead of the $17.8 billion estimate.

Challenged by an analyst on a competitive server environment and lower average selling prices (ASP), Intel CEO Pat Gelsinger said, "I think that the substrate and the overall supply limitations keeps, I'll say, a bound on market share movements in that area of the business overall. We do think incrementally, our IDM capabilities give us a bit more capacity, and we saw market share gains, for instance, in the first half of the year in the Client business as a result of that. And we do think that gives us some ability to hopefully do a bit better than we've even guided with if it occurs. But overall, yes, your question is in the right domain, fairly stable ASPs, fairly stable market segment share in the data center in the second half of the year, which, as we've already said, has substantially improved from last year as well as from the first half of this year. Products are getting more competitive. Stronger products give us more ASP capabilities as they become more competitive. So overall, we're feeling like the bottom was Q1, Q2 showed that to be the case, even a bit above our expectations, and we're in a great trajectory for the second half and into next year."

On the topic of margin, Mr. Gelsinger said, "Gross margin percent is expected to be lower in the second half of the year, predominantly due to 7-nanometer factory ramp, worsening supply constraints impacting client volume and mix and a onetime charge in Q4 related to our Intel federal business. For your models, absent this onetime charge, the implied Q4 gross margin would be approximately flat to Q3… Since April, we have seen supply chain inflation happening faster than we are electing to pass-through to our customers, further impacting our second half gross margin outlook. We expect increased R&D through the year as we invest in our road map and IDM 2.0 strategy, resulting in year-over-year growth in OpEx of approximately 10%."

Intel's outlook was improved, though, as Mr. Gelsinger reported, "Turning to our full year outlook. We are raising our revenue guidance by $1 billion to $73.5 billion with gross margin of 56.5% and EPS of $4.80, up $0.20 from our prior guide. Consistent with the investment mode we are in under IDM 2.0, we expect CapEx of $19 billion to $20 billion this year and free cash flow to be $11 billion, up $500 million versus prior expectations. In our CCG business, we expect full year revenue to be flat to slightly down year-over-year as growth from an increasing TAM is offset by supply constraints and the ramp down of our Apple modem and CPU revenue and the exit of our Home Gateway business. Adjusting for all of the Apple and Home Gateway business, CCG would have been up high single digits year-over-year. For DCG, we expect full year revenue to be slightly down year-over-year but with second half revenue significantly higher than first half as E&G and cloud recovers. As a result, we expect Data Center will return to year-over-year growth in both Q3 and Q4."

With the improved outlook and Mr. Gelsinger unapologetically telling Bloomberg TV that Intel is "committed to being a growth company," we remain fans of the turn-around potential, but note that significant bumps might still remain in the road. We appreciate the margin and server business concerns, particularly as the latter is a historically strong area for INTC, but we are optimistic that conditions will continue to improve. Shares trade for less than 13 times forward earnings estimates, while the balance sheet is strong and the dividend yield is 2.6%. Our Target Price for INTC now resides at $73.

Shares of **Int'l Business Machines** (IBM – $141.34) rose modestly after the company reported Q2 results that beat analyst estimates. The technology giant earned $2.33 per share, compared with the analyst consensus estimate of $2.28, and had revenue of $18.75 billion. Cloud and Cognitive Software revenue was $6.10 billion ($6.03 billion est.), Global Business Services revenue was $4.34 billion ($4.06 billion est.) and Global Technology Services revenue was $6.34 billion ($6.20 billion est.). The adjusted gross margin met expectations of 49.3%, while Red Hat revenue was up 20% year-over-year.

CEO Arvind Krishna said, "We continue to take decisive steps and make the investments required to execute on our strategy. This includes making acquisitions that strengthen our portfolio, offering new innovations and digital capabilities to our clients, expanding our partner ecosystem, accelerating changes to our go-to-market model while also instilling more of a growth mindset among our teams and building a more client-centric culture. We are executing the separation of Kyndryl, which is still on track to be completed by the end of the year."

CFO Jim Kavanaugh added, "We continue to make progress in our revenue performance, led by 7% growth in Global Business Services and 2% growth in Software, both at constant currency. The spending environment is improving. We see this in markets where reopening is progressing like the United States and Canada and in several countries in Western Europe. From an industry standpoint, we saw a meaningful improvement in some of the areas that have been more impacted by the pandemic like travel and transportation, automotive and industrial products. Globally, we're helping enterprise digitally transform, leveraging our platform approach. IBM's cloud revenue over the last year across software, services and infrastructure is now $27 billion, which is up at a double-digit rate. This continues to be led by Global Business Services and Cloud & Cognitive Software, whose cloud revenue this quarter was up 30% and 25%, respectively. As our revenue performance improves, the fundamentals of our business model remains solid. We expanded operating margins with gross margin up 30 basis points and pretax margin up 70 basis points."

Mr. Kavanaugh continued, "We've been clear on the metrics we're focused on: revenue growth and cash flow. For the full year, we continue to expect revenue growth at current spot rates. We've maintained this view since January, though I'll remind you, since then, we've lost about 1 point of revenue growth from the dollar strengthening. We also continue to expect $11 billion to $12 billion of adjusted free cash flow. This adjusted free cash flow excludes about $3 billion of cash impacts for structural actions and the transaction charges for the spin-off. As we look to the third quarter, we expect second and third quarter revenue dynamics to be in line with the average of the last 3 years. Looking at the revenue profile. More year-to-year growth should come from

the underlying business performance mitigated by moderating currency benefits. We're continuing to ramp our investments."

While we are pleased to see a second consecutive quarter of revenue growth, our ownership of IBM remains tenuous as our Investment Team continues to have plenty of debate on the future of the holding in our portfolios. On the one hand, IBM has been a serial disappointer, while on the other hand, the stock is extraordinarily inexpensive (12.3 times forward earnings estimates) compared to other cloud players. We also are comforted by a 4.6% dividend yield. For the moment, our Target Price is $171, but with every stock in our portfolios fighting for its spot, IBM remains on our watch list.

Hard-disk-drive maker **Seagate Technology PLC** (STX – $85.48) reported earnings per share of $2.00, versus the $1.84 estimate, in fiscal Q4 2021. STX had sales of $3.01 billion (vs. $2.98 billion est.). STX's 25% year-over-year revenue growth was propelled by improved pricing dynamics, demand strength and expanded product offerings. For the full fiscal year, Seagate returned $2.7 billion to shareholders via share repurchases and dividends and retired 13% of the outstanding share count.

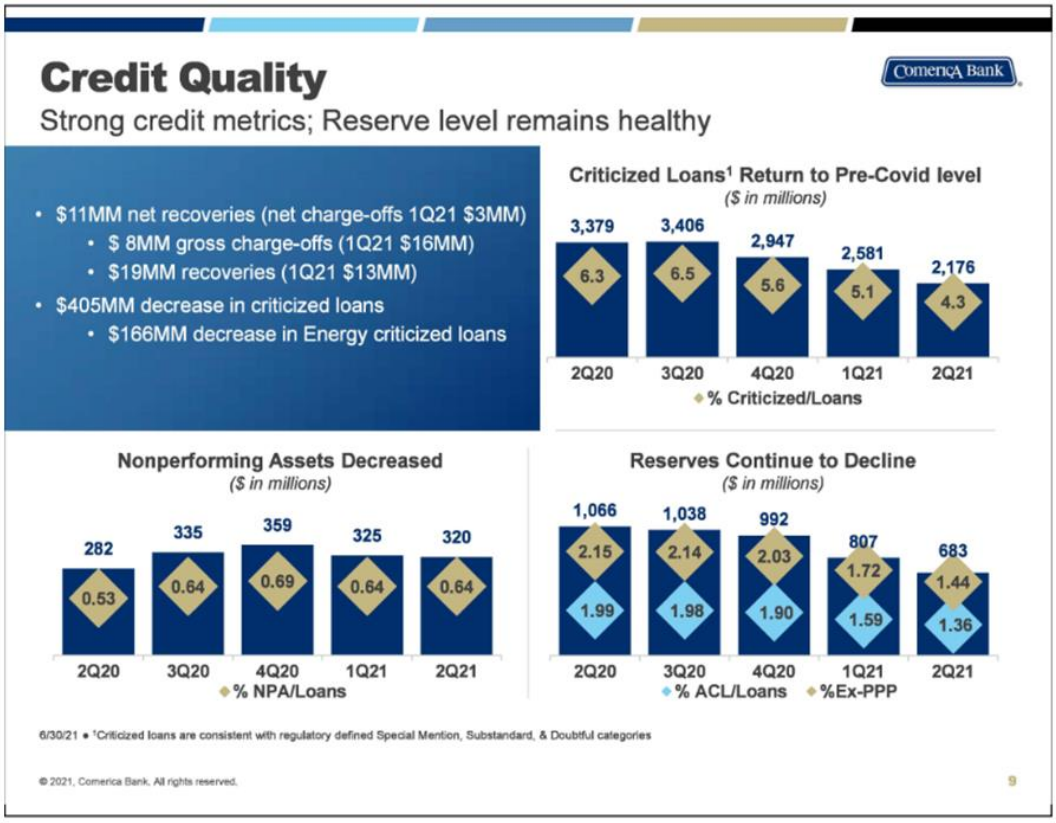
STX CEO Dave Mosley commented, "During the June quarter, we saw a meaningful increase in HDD demand due in part to the initial build-out of the TMS space, which is comprised of both new and repurposed HDDs. By our estimation, new Chia demand represented at most a mid-single-digit percentage of total industry exabyte shipments during the quarter, primarily into the distribution channel. This incremental demand served to tighten HDD supply dynamics and an increasingly robust demand environment. While the future growth outlook in this space remains unclear, we are excited by the potential applications associated with innovations in decentralized file storage. For Seagate, strong growth in the traditional mass capacity market remains the primary driver of HDD demand. In the June quarter, mass capacity represented close to 70% of Seagate's HDD revenue, supported by broad-based demand for our nearline drug and the third consecutive quarter of sales growth into both cloud and enterprise customers."

Mr. Mosley continued, "Cloud data center demand has remained healthy and steady for the last 18 months, and current indicators suggest that, that trend will continue. While it's clear that the pandemic played a big role in accelerating digital transformation, hyperscale industry leaders expect the digital adoption curve to continue accelerating even as COVID receives. At the same time, businesses are preparing for employees to return to the workplace, which is reinvigorating on-prem IT infrastructure investments and supporting ongoing recovery in the enterprise markets. We also experienced stronger-than-anticipated recovery in the VIA markets during the quarter, due in part to tighter supply conditions. We currently foresee relatively stable demand through the second half of the calendar year. Looking in secular demand for mass capacity data, combined with signs of macro recovery represent significant opportunities for Seagate and set the stage for continued strong financial performance and cash flow generation. These factors, combined with our broad product portfolio, underpin our forecast to grow revenue in the high single-digit percentage range or more in fiscal 2022, which is well above our long-term financial model range."

CFO Gianluca Romano added, “Based on our current outlook, we expect to maintain a robust capital return program in fiscal 2022, while maintaining a strong balance sheet and liquidity profile. Cash and cash equivalents remained relatively stable at $1.2 billion, and total liquidity was approximately $3 billion, including our revolving credit facility. These levels are more than adequate to support our operations and business need. As we enter fiscal 2022, the team and environment remains strong, and we continue to execute our product and technology road map to deliver on our customer requirements while driving value for Seagate. Looking ahead to our outlook for the September quarter, we expect revenue to be in the range of $3.1 billion plus or minus $150 million. We expect non-GAAP operating profit to grow faster than sales, resulting in non-GAAP operating margin at the after end of our long-term range of 15% to 20% of revenue, and we expect non-GAAP EPS to be in the range of $2.20 per share, plus or minus $0.15, representing a sequential growth of 10% at midpoint.”

Seagate continues to generate solid free cash flow, which was $354 million last quarter, up 29% year-over-year, giving management further flexibility to invest in new projects or return cash to shareholders. STX has $4.2 billion remaining on its existing share repurchase authorization and the dividend yield stands at 3.1%. Despite the terrific quarter and solid outlook, shares dropped (temporarily) as investors seemed to want an even bigger beat, which resulted in an even-more reasonable valuation (including a forward P/E ratio around 11) and earnings are expected to grow for the foreseeable future on the strength of cloud investments. We took some STX dollars off the table earlier this year and have again bumped up our Target Price for the remaining stake to $112.

Shares of **Comerica Inc.** (CMA – $67.02) ended the week slightly higher after the financial concern announced strong results for Q2 that included adjusted EPS 45% greater than the consensus analyst estimate. For the three-month period, net income was $2.32, versus the average forecast of $1.60. Like competitors, the big beat was due in large part to a reduction in the provision for credit losses as the economy continued to improve…and we don’t see that changing any time soon.



During Q2, net interest income increased by a bit more than management had been expecting, but expenses exceeded guidance also. Like peers, the pattern seems to be that a stronger fee environment is also leading to higher expenses as some are linked to fee revenue (incentive and revenue compensation).

CEO Curt C. Farmer commented, "Our second quarter results showed continuation of several positive trends. This included strong deposit growth, robust fee income and excellent credit quality. Revenue increased and we remained focused on expense control as we supported our revenue generating activities. We saw solid loan growth in several business lines, led by General Middle Market, which was more than offset by declines in auto dealer floorplan and Mortgage Banker. Also, our pipeline again increased as customers ramped up with the economy re-opening. We repurchased 5.9 million shares, reducing our share count by over 4%. Our ROE of over 17% and ROA of 1.50% remain above our historical norm, despite the ultra-low-rate environment. Our customers and colleagues across our markets are optimistic about the future and we expect economic metrics to remain strong the back half of the year."

Although the stock has been on a tear over the last year, we still believe there is more ahead. True, shares have recently been hurt by the dip in interest rates, but we believe at least a modest move up in rates is in the cards. Even a small rise would be highly beneficial as a large

percentage of CMA's loan book is adjustable rate loans. Additionally, we like that the bank has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We like Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management also help support the bottom line. While we would argue that calendar 2022 EPS estimates are too low, the present forward P/E of 11.8 remains attractive as does the 4.1% dividend yield. Our Target Price for CMA now stands at $91.

Synchrony Financial (SYF – $46.51) continued its recovery in Q2. The consumer credit concern earned $2.12 per diluted share, blowing away the $1.38 expected by analysts. Excess liquidity continued to have an impact on average balances, which were down about 4% per account for the period. Nevertheless, purchase volume grew 35% over last year while net interest margin was a solid 13.78%, 25 basis points higher than last year, with net charge-offs of 3.57%, slightly above the prior-year figure. Synchrony renewed its partnership with TJX companies beyond the 10-year mark along with 10 other programs and added four new ones in the quarter.

New CEO Brian Doubles commented on the breadth of Synchrony's customer base, "Today, Synchrony is penetrated across all distribution points in each sector of the home market. From big retailers to independent merchants and contractors and OEMs and dealers, our home platform provides financing solutions to about 60,000 merchants and locations across a broad spectrum of industries, including furniture and accessories, mattresses and bedding, appliances, windows, roofing, HVAC and flooring. Our partnerships are deeply rooted in industry expertise, data-driven strategic objectives and mutually beneficial economic outcomes. The average length of our top 20 partners is over 30 years because we are able to deliver a breadth of financing products, innovative digital capabilities and seamless customer experiences that are customized to each partner's needs as they evolve over time. Our data insights and analytics expertise, when combined with the partner's own data, empowers each merchant as they seek to optimize their marketing, customer acquisition and sales strategies."

Shares took quite the roller coaster ride last week before ultimately closing higher going into the weekend. Boasting partnerships with Amazon and other top retailers as well as programs with a diversified set of other businesses that include Venmo, PayPal and Verizon, we anticipate SYF will continue to improve its long-term potential to benefit from growing digital shopping. SYF will need to continue to enhance its technological capabilities as it moves forward, but its financial footing and credit quality underpin a $2.9 billion share repurchase program approved through next June. The company declared its regular $0.22 per share quarterly dividend and the yield is 1.9%. Our Target Price is now $59.

Shares of **Capital One Financial** (COF – $160.08) moved up last week as the company reported its Q2 financial results. The consumer finance giant posted EPS of $7.71 in the quarter, a massive number in comparison to the $4.63 expected by analysts, although a large release of loan loss allowances padded the bottom line to the tune of about $2.29 per share. Like many of its large peers, COF enjoyed a robust increase in card purchase volumes, up 22% vs Q1 and 24% vs. the same period in 2019, and strong credit. The solid growth was offset by high payment rates (pressuring card loan growth) and higher overall expenses as the company continues to invest in

growth initiatives. Net interest margin of 5.89% for the period was below consensus expectations of 5.97%, primarily due to lower card yields.

CEO Richard Fairbanks commented, "Second-quarter results reflect building momentum in our domestic card business. As we emerge from the pandemic, consumers are spending more and continuing to make elevated payments. Accelerating purchase volume growth partially offset the impact of historically high payment rates resulting in strong revenue growth and a more modest year-over-year decline in loan balances. Several key themes are evident in our second quarter results. Credit remains strikingly strong, purchase volume and loans are rebounding, we are continuing to invest to propel our future results, and we're returning capital to our shareholders. We are seeing increasing near-term opportunities to build our domestic card business as we emerge from the pandemic. We are leaning further into marketing to seize these opportunities. We are also increasing our marketing for Auto, National Banking, and our brand."

Mr. Fairbanks concluded, "We are now in the ninth year of a journey to build a modern technology company from the bottom of the tech stack up. Our progress is accelerating and the stakes are rising. Competitor tech investments are increasing as technology is increasingly seen as an existential issue. The investment flowing into FinTechs is nothing short of breathtaking and the war for tech talent continues to escalate, including levels of compensation. We continue to invest in technology and the opportunities that emerge as our transformation gains traction. Our modern technology is powering our current performance and setting us up to capitalize on the accelerating digital revolution in banking."

We remain more concerned about a smaller credit card portfolio than we are about credit losses as we move to the other side of the pandemic and the economy accelerates. However, we continue to be long-term fans, liking that COF has historically acted opportunistically to acquire assets in efforts to bolster returns and diversify, while its digital focus allows it to spend more on advertising than on traditional overhead. COF trades today for less than 9 times the consensus NTM adjusted EPS estimate and offers a 1.0% dividend yield, that we think will grow in the not-too-distant future. Our Target Price has been boosted to $183.

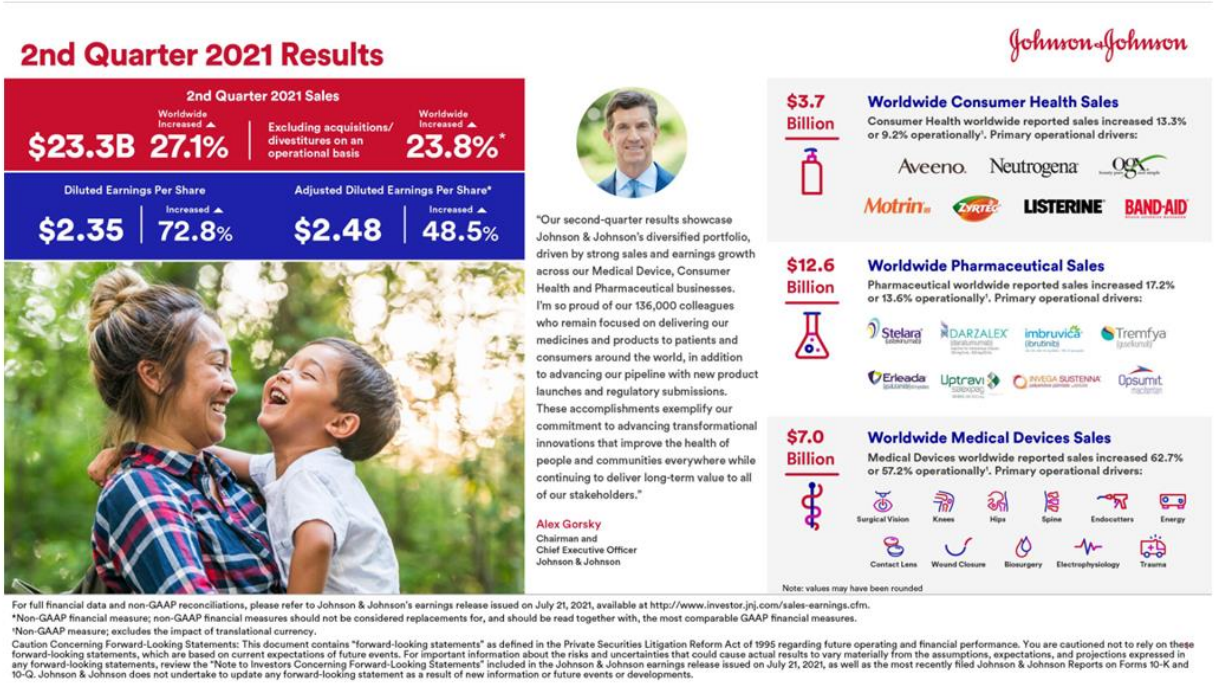
Shares of **ManpowerGroup** (MAN – $112.51) slid 3% on Tuesday even as the staffing services firm announced that it beat analysts' top- and bottom-line estimates in Q2. MAN earned $2.02 in the period (versus the $1.42 est.) on $5.3 billion of revenue, a 41% increase over the amount generated in a much more challenging environment a year ago. Of its geographical segments, Southern Europe (MAN's largest territory, commanding 46% of revenue) showed the biggest improvement on an absolute basis in operating profit, particularly in France, which recovered from a loss of $2.5 million a year ago to show earnings of $65.7 million in the latest quarter. Also, management purchased 432,000 shares of stock in the quarter for $50 million, bumping year-to-date purchases to 1.5 million shares for $150 million (about $100 per share). As of June 30, 1.9 million shares remain available for repurchase under the 6 million share program approved in August 2019. Including a favorable currency impact of 4 cents, management expects Q3 earnings per share between $1.86 and $1.94.

CEO Jonas Prising commented, "Our second quarter results reflect an improving global economic environment and increased demand for our services across our key markets and

brands. As restrictions continued to ease worldwide, we saw the benefit of our diversified portfolio of services and workforce solutions. Our Manpower business rebounded strongly, our Experis business improved significantly during the quarter and our Talent Solutions offerings continued to deliver against the strong demand for global workforce solutions. We also made significant progress in the ongoing execution of our strategic initiatives, particularly in the implementation of new technology across the globe. We are encouraged by the current momentum that we are experiencing across our offerings and confident in our team's ability to continue to deliver value to all our stakeholders."

Unsurprisingly (to us), Manpower continues to bounce back from the pandemic in a similar fashion that it has from the many other crises encountered throughout its 70-plus history. And although financial results haven't quite reached pre-pandemic levels, management's efforts to maintain solid financial footing through building cash and expense management ought to allow it to go on offense as the world reopens and employment needs expand. Owing to its flexible operating structure, we note that management has repurchased over a third of outstanding shares since 2014 and has raised its dividend 11 consecutive years. Shares have rallied nearly 25% YTD but are still attractively priced given respective EPS estimates of $7.01, $8.41 and $9.99 this year, next year and in 2023. The next dividend payment, which is made twice per year, is expected in December and the yield is 2.2%. Our Target Price has been raised to $144.

Johnson & Johnson (JNJ – $171.79) earned $2.48 in Q2 2021, $0.19 ahead of the analyst consensus, and had revenue of $23.3 billion, compared with the analyst consensus of $22.5 billion. JNJ benefitted from growing global sales of OTC allergy medication Zyrtec, strong U.S. demand for antacid Pepcid and professional recommendations for COVID-related hydration brand ORSL in the Asia-Pacific market. Neutrogena and Aveno benefitted from the strong U.S. recovery, while the COVID-19 vaccine pushed the Pharmaceutical segment to 14% year-over-year growth. Oncology and neurology also printed double-digit growth numbers, while the cardiovascular unit declined around 7% in the quarter.



CFO Joe Wolk explained, "We continue to generate strong free cash flow with approximately $8 billion year-to-date. We ended the second quarter with approximately $25 billion of cash and marketable securities and approximately $33 billion of debt, resulting in $8 billion of net debt. Our financial position and balance sheet remains strong. As we enter the back half of the year, we are well positioned to continue to deploy capital in a strategic value-creating way that will benefit stakeholders over the long term. Our dividend remains a key priority. And during the quarter, we distributed $2.8 billion to shareholders. Regarding M&A, we continually evaluate strategic opportunities that have the potential to further enhance our business while also driving better health outcomes for patients and consumers."

Mr. Wolk offered a COVID-related update, "Our COVID-19 vaccine contributed $164 million in revenue in the second quarter, bringing the year-to-date total to $264 million. At this point, revenue from the first half of the year was provisionally recorded at $5 per dose, given that volumes during the pandemic period were uncertain. Currently, we expect the ultimate final not-for-profit price could be as much as $8 per dose. The final not-for-profit price will fluctuate until the end of the year when we know precisely all the variables that go into the calculation, namely the net costs incurred as well as volumes produced during the pandemic period. Given the firm contracts we have in place, pending advanced purchase agreements, we expect to recognize vaccine sales of approximately $2.5 billion in 2021, with more than half of that revenue likely to

occur in the fourth quarter. Regarding vaccine manufacturing, we continue to expand our global network to include 10 manufacturing sites for various stages of production." JNJ said that beyond 2022, the possibility of booster shots and need for clinical review of published data makes it too early to draw meaningful conclusions.

Separately, attorneys general for several states including New York and Pennsylvania, jointly announced a $26 billion settlement over the opioid epidemic. The press release for NY stated, "The proposed agreement will resolve claims against three of the nation's largest drug distributors — **McKesson Corporation** (MCK – $202.63), **Cardinal Health Inc.** (CAH – $59.20) and Amerisource Bergen Drug Corporation — as well as one of the nation's largest drug manufacturers — Johnson & Johnson — over the companies' roles in creating and fueling the opioid epidemic…The proposed global agreement — if approved by a substantial number of states and local governments across the country — would resolve the claims of nearly 4,000 entities that have filed lawsuits in federal and state courts against the four companies. New York has already signed on to today's agreement, while other states have 30 days to sign onto the deal. Local governments in the participating states will have up to 150 days to join. States and their local governments will receive maximum payments if each state and its local governments join together in support of the agreement." The three drug distributors would pay up to $21 billion over the next 18 years, including $7.9 billion by MCK and $6.4 billion from CAH, while JNJ would pay up to $5 billion over the next 9 years (including $3.7 billion paid in the first three years). The money is expected to be spent nationwide on opioid treatment and prevention. The settlement also includes provisions for the involved companies related to future distribution and sale of the drugs.

While a lot of money is involved in the settlement, it is spread over a very long period of time, so it is manageable, while the positive of beginning to put the opioid mess in the rear-view mirror outweighs the penalties at this point. Further, we consider J&J a core holding, and we like the diversified healthcare giant's wide product range (within the health care space), reasonable valuation (including a P/E under 18) and 2.5% dividend yield. We like management's willingness to selectively do M&A and our Target Price is $190. Our updated Target Price for MCK is $234 and for CAH is $83.

Shares of managed health care provider **Anthem** (ANTM – $382.29) dipped after the company reported fiscal Q3 2021 results. Anthem earned 7.03 per share in the quarter (vs. $6.33 est.) and had revenue of $33.3 billion (vs. $33.0 billion est.). Anthem had 44.3 million medical members, a 4.4% year-over-year improvement, which was propelled by growth in the Medicaid and Commercial insurance businesses.

"I'm pleased to report that we continue to deliver on our commitments to our stakeholders while making considerable progress against our long-term strategy to transform our organization from a health benefits company to a lifetime trusted partner in health. This transformation is fueled by the continued expansion of our digital platform, which improves connections across the health care system while leveraging the industry's largest data sets to drive actionable insights in pursuit of better health," said CEO Gail K. Boudreaux. "[Our] efforts align to Anthem's purpose, to improve the health of humanity. Our community health strategy supports our purpose by addressing the health-related social needs of our associates, members and communities through

data and evidence-based interventions that promote health equity. Our commitment to living this purpose has earned recognition that I'm particularly proud of… As we reflect on our achievements this quarter and our broader mission, we're cognizant that fundamentally improving the health of humanity takes partnerships, aligned incentives and connections across people, care providers, researchers, data scientists, communities and others dedicated to improving health. Anthem is making these connections through our digital platform for health while following the data and embracing our unique assets to drive positive change in ways that only Anthem can. We have deep local roots in our communities and the industry's largest data sets, both of which position us uniquely well to deliver against our mission."

While the future remains uncertain as it relates to the Biden administration and corresponding regulatory changes that might alter the health care industry, we still think that Anthem is an attractive Value name with multi-year earnings growth potential. In addition, we like the launch of the new PBM, IngenioRX, as well as countless cross-selling opportunities and the ability to use its scale for the benefit of its customers. We are intrigued by its work to align incentives with caregivers, including the creation of high-performance provider networks. Anthem expects medical membership between 44.8 million and 45.3 million individuals, with full-year EPS above $25.50 and full-year operating income around $137.1 billion. Although ANTM shares have risen, we think the valuation remains reasonable and management is doing the right things to sustainably grow the business. Our Target Price for ANTM now resides at $495.

Premium tool manufacturer **Snap-on Inc.** (SNA – $224.59) turned in EPS of $3.76 in Q2, some 16% better than the $3.22 expected by analysts. Revenue for the period was also much better than expected, coming in at $1.08 billion, which was 10.8% higher than the consensus analyst estimate. SNA posted 14% Y-o-Y revenue growth, with Tools and Repair Systems growing 19%. Despite higher freight and material costs, operating margins remained resilient in the period. Excluding financial services, the company's operating margin climbed back to 2019 levels (20%).

CEO Nick Pinchuk commented, "We're encouraged by our second quarter as Snap-on continued its upward trajectory, reaching significant heights in sales and operating earnings, and by our meaningful gains since the pandemic impacted activity during this period last year."

Mr. Pinchuk continued, "Our performance demonstrates the varied and abundant opportunities along our runways for growth and our ability to improve our operations throughout the challenges of the COVID environment. In comparison to the pre-virus second quarter of 2019, we believe our results, particularly in the Snap-on Tools Group, trace a positive onward trend, clearly confirming the resilience of our markets and the strength of our operations, and emphatically testifying to our capabilities in pursuing existing and new possibilities going forward. As we have throughout the turbulence, we continue to develop our ongoing advantages in our products, brands and people, reinforcing the proficiencies that enabled our robust quarter and that we believe will author substantial progress into the future. Finally, I want to thank our franchisees and associates worldwide for their firm dedication, for their continued contributions, and for their confidence in our prospects as we proceed through the remainder of 2021 and beyond."

As economies around the globe continue to reopen, with the understanding that there may be some steps backwards, we would expect vehicle miles driven to continue to increase. Additionally, we continue to think Snap-on is positioned to benefit as the North American vehicle fleet is on average 12 years of age, with an ever-growing need to improve technician productivity. And as the appetite for new car purchases is met with more supply, we expect service departments at dealerships across the country to increasingly rely on SNA's specialty tools and sophisticated diagnostic solutions.

Snap-on is conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market. The stock offers a solid dividend and a yield 2.2%. Shares trade at less than 16 times NTM projected adjusted EPS. Our Target Price for SNA has been elevated to $274.

Despite turning in another strong quarter and materially raising full-year EPS guidance, shares of **Celanese** (CE – $152.81) ended trading last week mostly flat. The specialty chemical producer announced adjusted EPS of $5.02 (versus $4.47 est.), while revenue was $2.2 billion (versus $1.9 billion est.). Sales were up 22% from Q1, driven by strong results in the Acetyl Chain segment which benefited from elevated acetic acid pricing in China. This also drove a 43% increase in operating profit from Q1.

In the engineered materials business, operating EBITDA was flat versus Q1 as CE was able to pass along input price increases. However, volumes sold to automotive companies, which generates about 1/3 of the revenue in the segment, were down almost double digits because of the decline of global auto builds (as auto companies struggle with the global chip shortage). While this should eventually shift, it is worth noting that the push to EV should benefit Celanese as it sells up to 4 times more engineered material per EV than vehicles with internal combustion engines.

CEO Lori Ryerkerk elaborated, "Our record performance this quarter reflected the global positions and unique optionality within our businesses to meet elevated customer demand despite significant sourcing and supply chain constraints that persist. With very strong earnings and cash generation across 2021, we are investing in future growth via organic opportunities within our businesses, disciplined M&A like the Santoprene acquisition, and share repurchases. Our teams' proactive response to the ongoing global supply chain constraints and inflationary backdrop have positioned us well as we enter the second half of 2021. We anticipate that continued moderation in Acetyl Chain industry pricing as the year progresses will be partially offset by strong fundamental demand across our businesses and modest continued sequential earnings momentum in Engineered Materials. As a result, we expect third quarter 2021 adjusted earnings of $4.50 to $4.75 per share and full year 2021 adjusted earnings of $16.50 to $17.00 per share."

Celanese has typically enjoyed a cost advantage in many of its markets and has been able to push through regular price increases. Despite an almost 18% rally year-to-date, shares trade at a very attractive 11.6 times NTM adjusted EPS expectations. The company generated Q2 operating cash flow of $427 million and free cash flow of $309 million. CE returned $326 million in cash to shareholders during the second quarter, including $250 million of share repurchases and $76 million of dividends. Management also announced that the Board added $1 billion to its share

buyback program, even as it already had $563 million remaining before the addition. The dividend yield now stands at 1.8%. We appreciate the company's exposure to secular growth markets like electric vehicles and 5G through its Engineered Materials segment and think it is positioned to win from customer sustainability efforts. Our Target Price for CE has been lifted to $197.