Market Commentary Monday, August 2, 2021

August 1, 2021

EXECUTIVE SUMMARY

TPS 658 – August Edition Coming Tuesday
Market of Stocks – S&P 500 Down, Average Stock Up Last Week
Interest Rates – Yields Dip; Comparisons Favor Equities
Dividends – Payouts Have Risen Over Time
Econ Outlook – Terrific GDP Growth Still Likely
FOMC Meeting – No Change to Accommodative Monetary Policy
Powell Speaks – Fed Chair on the Economy
Sales & Earnings – Superb Q2 Results
Contrarian Sentiment – Liking that Folks are Still Not Very Enthused About Equities
Stock News – Updates on MSFT, AAPL, QCOM, GOOG, COHU, BHE, PFE, CAT, BMY, LMT, HAS & NYCB

Market Review

Work is underway on the August edition of *The Prudent Speculator*. This month, we offer one first-time recommendation, while our *Graphic Detail* section looks at additional bank stock metrics as well as historical volatility at the Value and Growth index level. If all goes according to Hoyle, we expect to email *TPS 658* on Tuesday evening, August 3.

*****

The week just ended offered another example of why we always say it is a market of stocks and not a stock market. Indeed, the S&P 500 posted a five-day return of -0.35%, with a negative-37-basis-point contribution from Amazon.com accounting for all the decline in the popular market-capitalization-weighted index. Interestingly, more than 60% of the benchmark's constituents were in the black for the five days, with the equal-weighted S&P 500 managing a total return of 0.62%.

Value also beat Growth by a wide margin, with the Russell 3000 Value index gaining 0.65% versus a loss of -1.19% for the Russell 3000 Growth index, which was somewhat surprising given recent trends in which a drop in Treasury yields had been a headwind for the former.

THE PRUDENT SPECULATOR

ANOTHER DIP IN THE 10-YEAR YIELD

The downturn in government bond yields (rally in prices) resumed, with the interest rate on the benchmark 10-Year U.S. Treasury dropping from 1.28% on July 23 to close at 1.22% on July 30.

Of course, we would argue that lower interest rates should be a tailwind for stocks in general and dividend payers in particular,…

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 (3.60% vs. 1.22% 10-Year) and comparatively generous S&P 500 dividend yield of 1.33%.

…especially given that unlike most bonds, the income available from equities is not fixed. True, payouts are never guaranteed, but history suggests that companies have a propensity to hike dividends over time.

THE PRUDENT SPECULATOR

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 actually inched up in 2020, while in the last two weeks, *TPS* stocks Bank of America, McKesson, Truist Financial, Capital One Financial and Norfolk Southern each hiked its payout.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 7.22.21)	202	11	2	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
Source: Standard & Poor's.				

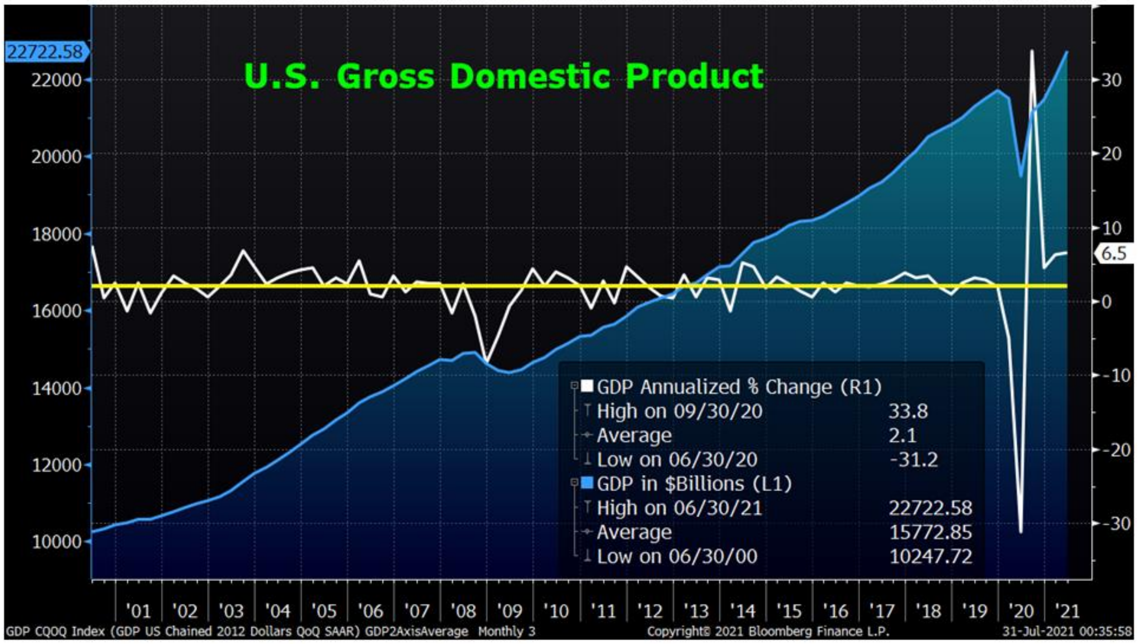
S&P 500 DIVIDENDS PER SHARE	
2022 (Est.)	$65.23
2021 (Est.)	$60.31
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
Source: Bloomberg. As of 7.30.21	

Happily, despite the difficulties of the Global Pandemic, Corporate America has the wherewithal to boost distributions, given that U.S. GDP hit an inflation-adjusted record high in the second quarter,…

THE PRUDENT SPECULATOR

EXCELLENT Q2 U.S. GDP GROWTH OF 6.5%

Second quarter 2021 real (inflation-adjusted) domestic economic growth came in at a very strong 6.5% rate on an annualized basis, and the current-dollar GDP figure of $22.7 trillion is now at an all-time high, surpassing the pre-pandemic $21.7 trillion posted in Q4 2019.



…with projections for growth to remain very healthy in Q3,…

SUBSTANTIAL U.S. GDP GROWTH ESTIMATED FOR Q3

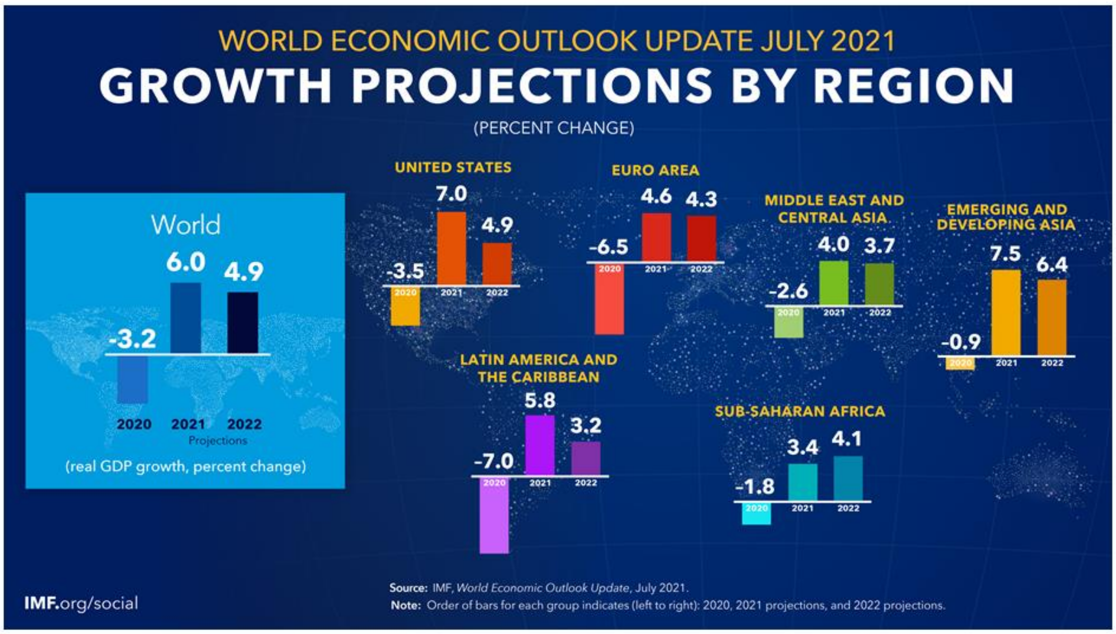
While Q1 and Q2 2021 saw an acceleration of the economic rebound, the Atlanta Fed's initial projection for Q3 2021 GDP growth on an annualized basis is a very-robust 6.1%.

…and for the balance of 2021 and 2022.

THE PRUDENT SPECULATOR

IMF JULY WEO – STRONGER ADVANCED ECONOMY PROJECTED GROWTH

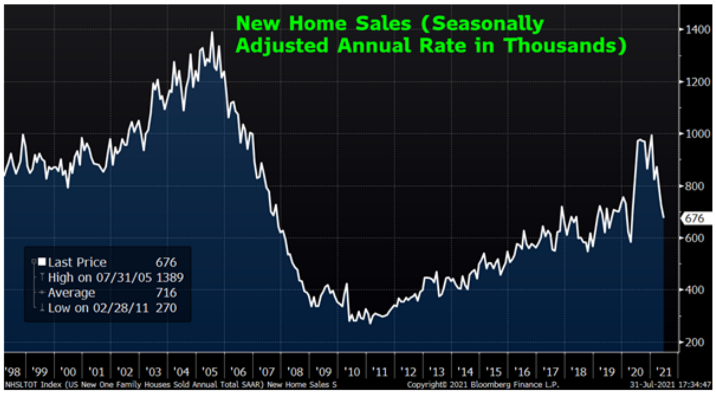
"The global economy is projected to grow 6.0 % in 2021 and 4.9% in 2022. The 2021 global forecast is unchanged from the April 2021 WEO, but with offsetting revisions. Prospects for emerging market and developing economies have been marked down for 2021, especially for Emerging Asia. By contrast, the forecast for advanced economies is revised up. These revisions reflect pandemic developments and changes in policy support. The 0.5 percentage-point upgrade for 2022 derives largely from the forecast upgrade for advanced economies, particularly the United States, reflecting the anticipated legislation of additional fiscal support in the second half of 2021 and improved health metrics more broadly across the group." – IMF World Economic Outlook Update, July 2021



To be sure, there is no assurance that economic growth will match estimates, especially as the supply and demand equation has been upended as businesses had to quickly react to the disjointed COVID-19 lockdowns and reopenings,…

THE PRUDENT SPECULATOR

SUPPLY CONSTRAINTS WEIGH ON HOUSING AND MANUFACTURING

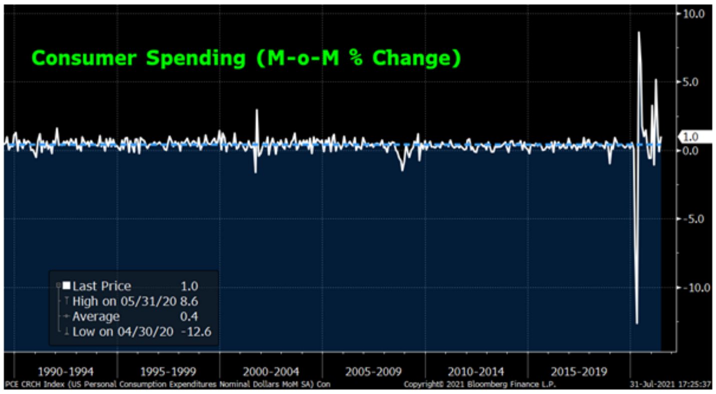


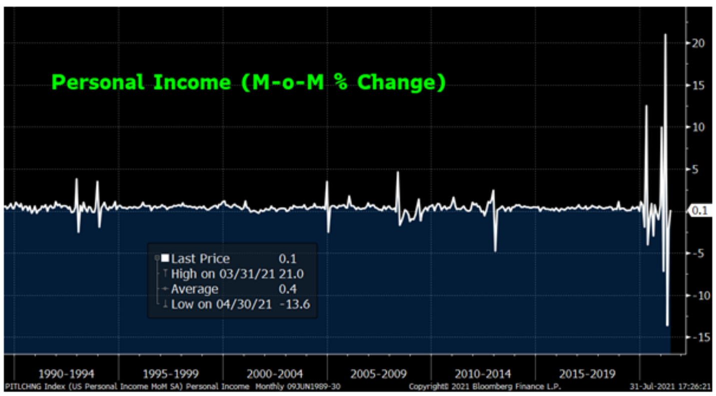
Sales of new homes for June fell well short of expectations, skidding 6.6% from the month prior to 676,000 units, with high prices and limited inventory the main causes. The median price for a new home dipped to $361,000. The headline number for durable goods orders in June climbed 0.8%, well below expectations as supply-chain and labor shortages weighed on factories. Excluding the volatile transportation sector, orders rose 0.3%.

…but the latest read on the state of the consumer in June was better than expected,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING RISES AND SAVINGS LEVELS REMAIN HIGH



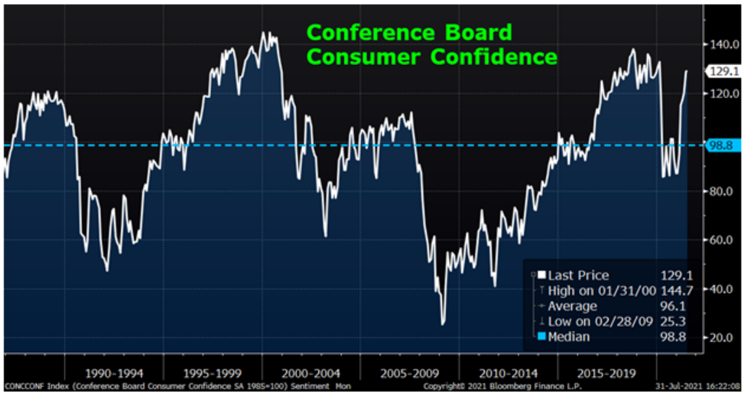


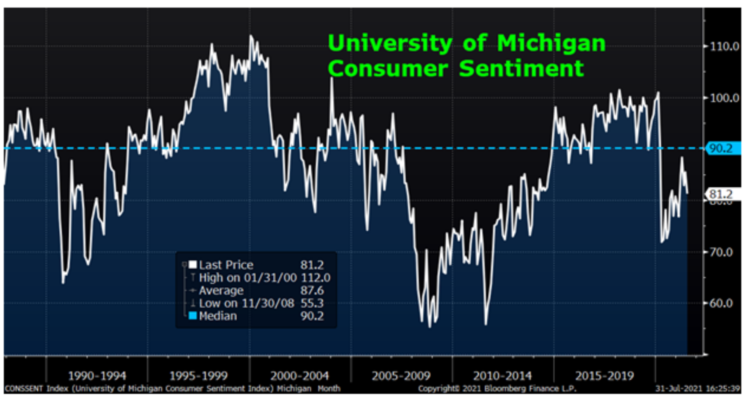
With government stimulus payments more or less spent, consumer spending rose an impressive 1.0% in June, nicely above expectations, thanks to a surge in outlays for travel, and up from a drop of 0.1% in May. Shoppers did have to reach into their savings a bit, as personal incomes, without the extra support from Uncle Sam, inched up 0.1%. Happily, the savings rate came in at 9.4%, down from 27.7% in March, but still well above the pre-pandemic level.

…while forward-looking optimism on Main Street exceeded forecasts last week.

THE PRUDENT SPECULATOR

MIXED PICTURE ON CONSUMER CONFIDENCE/SENTIMENT



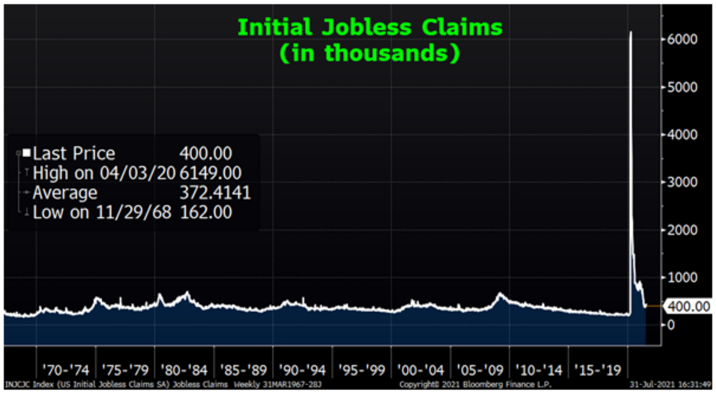


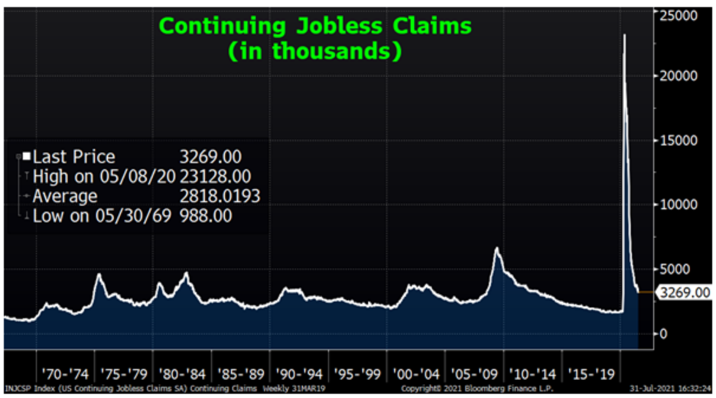
Consumer confidence, per data from the Conference Board, edged up in July to a much-better-than-expected 16-month high of 129.1, well above the historical norm dating back to the 1980s. Meanwhile, the final Univ. of Michigan gauge of consumer sentiment for July came in at an above-average 81.2, modestly ahead of estimates and up slightly from a final reading of 80.8 in June, with the tally held back by worries about inflation.

The strength of the labor market recovery remains in question,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS DROP BUT CONTINUING CLAIMS RISE IN THE LATEST WEEK





With auto industry applications still impacting the number, the jobs market recovery improved in the latest week, as new filings for unemployment benefits for the period ended July 24 came in at a seasonally adjusted 400,000, down 24,000 from the week prior but above expectations. Continuing claims filed through state programs inched up to 3.27 million, near a pandemic low, though there have been 86 million jobless applications filed over the last 71 weeks.

…with the Federal Open Market Committee last week announcing that it would maintain its current highly accommodative stance toward monetary policy,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 7.28.21

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

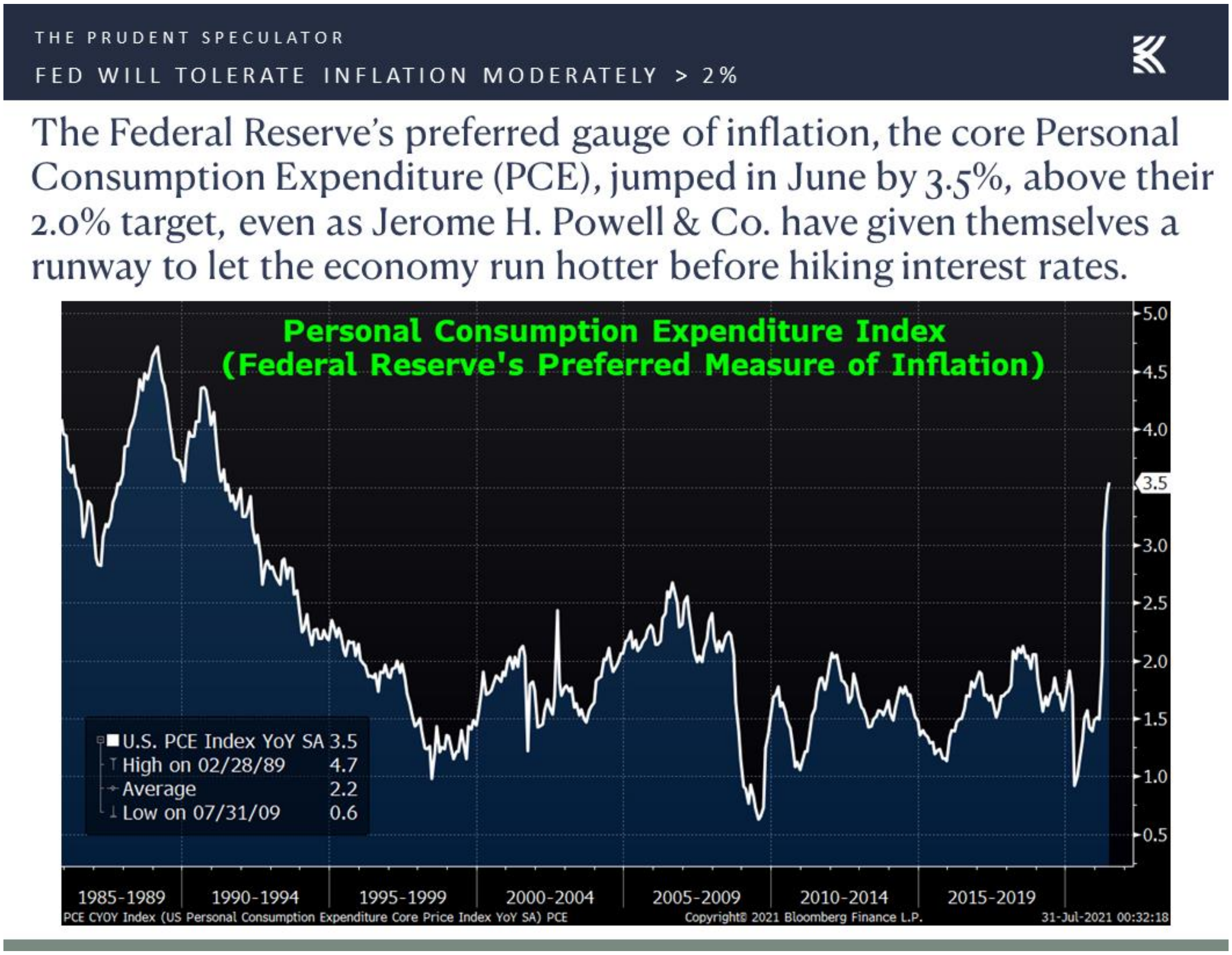
With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

…even as the Fed's preferred measure of inflation in June came in well above the long-term 2.0% target.



No doubt, developments on the coronavirus front add to the difficulty of economic prognostication,…

TWISTS AND TURNS IN THE COVID-19 BATTLE

Certainly, there has been plenty of progress made in the coronavirus fight, with vaccines continuing to protect against worse outcomes and a surprising drop in news cases since the United Kingdom's July 19 Freedom Day, but new mask mandates and breakthrough Delta variant infections remind us that there is still a lot to worry about.

HEALTH

CDC recommends masks indoors even for some vaccinated against Covid-19

By Andrew Joseph July 27, 2021 Reprints

CDC Director Dr. Rochelle Walensky in May 2021.
GREG NASH-POOL/GETTY IMAGES

Federal health officials advised Tuesday that even people who've had their Covid-19 shots wear masks in public indoor settings in areas with widespread transmission of the coronavirus, a major setback in the progress in the U.S. epidemic that reflects a surging variant and the country's ongoing struggles to increase vaccination rates.

The reversal to the Centers for Disease Control and Prevention's earlier guidance comes as the Delta variant — the most transmissible version of the pathogen yet, by far — is igniting outbreaks and driving hospitalizations up in states with low vaccination rates, like Missouri, Arkansas, and Florida. The variant is responsible for seemingly increasing numbers of breakthrough infections.

The CDC also recommended that schools reopen in the fall with universal indoor masking for all students, teachers, and staff, even among people who are vaccinated — a policy decision that will ultimately be left up to state and local officials.

WSJ

WORLD

U.K.'s Delta Variant Wave Appears to Ebb, Offering Hope Covid-19 Is in Retreat

As caseloads drop, scientists watch to see if infections climb after restrictions lifted

The U.K. was the first major Western economy to experience a significant wave of Delta infections.
PHOTO: HENRY NICHOLLS/REUTERS

By Jason Douglas and Karina Shah
Updated July 30, 2021 12:22 pm ET

The New York Times

Covid-19 Updates | Coronavirus Map and Cases | Delta Variant Map | New C.D.C. Mask Guidance

Daily Covid Briefing
July 31, 2021 Updated 2 hours ago

- **Demand for shots is increasing in less vaccinated states under siege from the Delta variant.**

Data from the C.D.C. shows that many people in states like Louisiana, Mississippi and Missouri are now receiving their first doses. On Friday, more than 850,000 total shots were recorded in the U.S.

- More than 200 staff members at 2 San Francisco hospitals have tested positive, most in breakthrough Delta infections.
- Gov. Greg Abbott bars mandates for vaccinations and masks in Texas.
- In the U.S., the collision of the Delta variant and low vaccination rates is raising death rates.
- Demonstrations against France's vaccine pass surge for a third weekend, even as cases rise.
- 'The war has changed.' In just days, the U.S. shifts tactics against the virus.
- Here's what scientists know at this moment about the Delta variant.

…but Fed Chair Jerome H. Powell was relatively upbeat in his remarks last week that opened his latest Press Conference,…

FED CHAIR JEROME H. POWELL – PRESS CONFERENCE: 7.28.21

Progress in vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen, and real GDP this year appears to be on track to post its fastest rate of increase in decades. Much of this rapid growth reflects the continued bounceback in activity from depressed levels. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Household spending is rising at an especially rapid pace, boosted by the ongoing reopening of the economy and ongoing policy support. The housing sector remains very strong, and business investment is increasing at a solid pace. In some industries, near-term supply constraints are restraining activity. These constraints are particularly acute in the motor vehicle industry, where the worldwide shortage of semiconductors has sharply curtailed production so far this year.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and employment rose 850,000 in June, with the leisure and hospitality sector continuing to post notable gains. Nonetheless, the labor market has a ways to go. The unemployment rate in June was 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. Factors related to the pandemic, such as caregiving needs, ongoing fears of the virus, and unemployment insurance payments, appear to be weighing on employment growth. These factors should wane in coming months, leading to strong gains in employment.

Inflation has increased notably and will likely remain elevated in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly because supply bottlenecks in some sectors have limited how quickly production can respond in the near term. These bottleneck effects have been larger than anticipated, but as these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal. Very low readings from early in the pandemic as well as the pass-through of past increases in oil prices to consumer energy prices also contribute to the increase, although these base effects and energy effects are receding.

The process of reopening the economy is unprecedented, as was the shutdown at the onset of the pandemic. As the reopening continues, bottlenecks, hiring difficulties, and other constraints could continue to limit how quickly supply can adjust, raising the possibility that inflation could turn out to be higher and more persistent than we expect. Our new framework for monetary policy emphasizes the importance of having well-anchored inflation expectations, both to foster price stability and to enhance our ability to promote our broad-based and inclusive maximum-employment goal. Indicators of longer-term inflation expectations appear broadly consistent with our longer-run inflation goal of 2%. If we saw signs that the path of inflation or longer-term inflation expectations were moving materially and persistently beyond levels consistent with our goal, we'd be prepared to adjust the stance of policy.

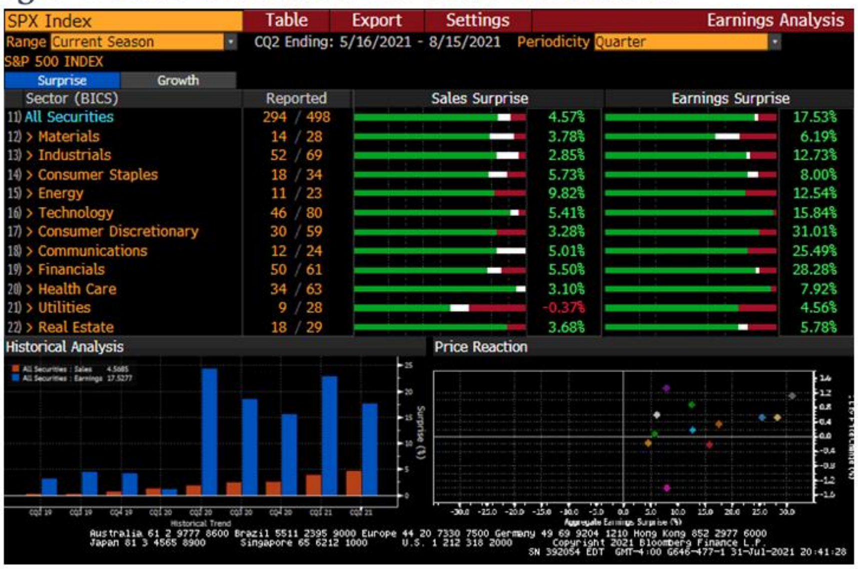
The effects of the pandemic on the economy have continued to diminish, but risks to the economic outlook remain. Progress on vaccinations has limited the spread of COVID-19. However, the pace of vaccinations has slowed, and the "delta" strain of the virus is spreading quickly in some areas. Continued progress on vaccinations would support a return to more normal economic conditions.

…suggesting to us that the outlook for corporate profit growth this year and next should continue to be very favorable.

THE PRUDENT SPECULATOR

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021 AND 2022

Q2 earnings reporting season continues to see terrific results vs. analyst projections that are still too pessimistic in their top- and bottom-line estimates. Thus far, 87.3% of S&P 500 companies have topped EPS expectations and a whopping 83.6% 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

As such, we remain optimistic about the prospects for our broadly diversified portfolios of what we believe to be undervalued stocks, and we find it fascinating that mutual and exchange traded fund investors continue to have more interest in bonds than in U.S. stocks,…

THE PRUDENT SPECULATOR

INFLOWS CONTINUE WEEK AFTER WEEK…INTO BOND FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/14/2021	7/7/2021	6/30/2021	6/23/2021	6/16/2021
Total Equity	7,590	-7,577	5,427	-14,015	25,860
Domestic	1,278	-10,372	998	-18,316	21,301
World	6,313	2,795	4,430	4,300	4,560
Hybrid	402	879	765	-1,698	-1,189
Total Bond	5,875	12,745	17,806	8,819	9,808
Taxable	2,441	9,888	15,532	6,181	7,165
Municipal	3,434	2,856	2,274	2,637	2,644
Commodities	-592	-564	-132	-305	537
Total	13,275	5,483	23,867	-7,199	35,017

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

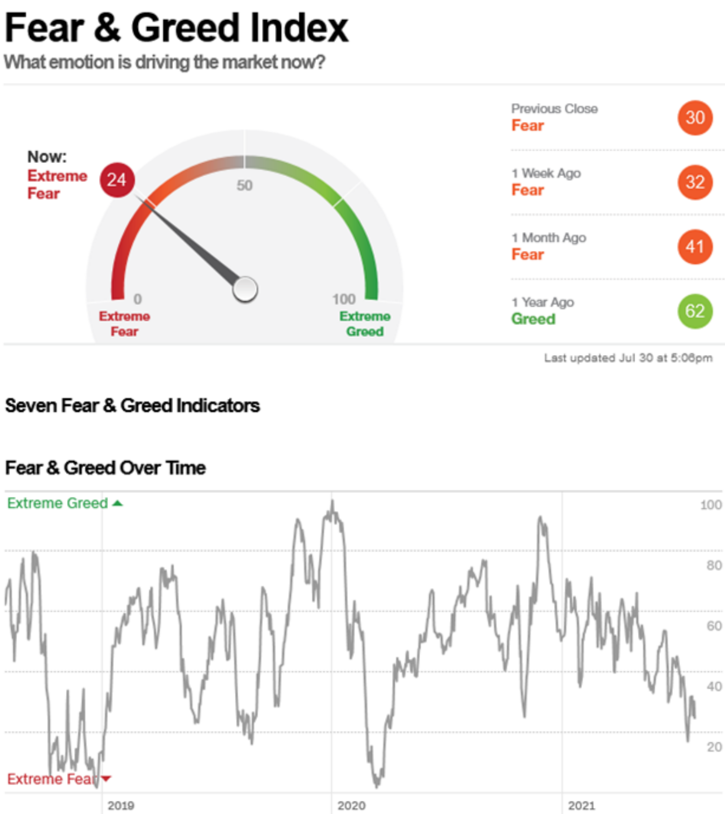
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	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!

…while one market sentiment reading (good news from a contrarian perspective) is flashing Extreme Fear,…

THE PRUDENT SPECULATOR

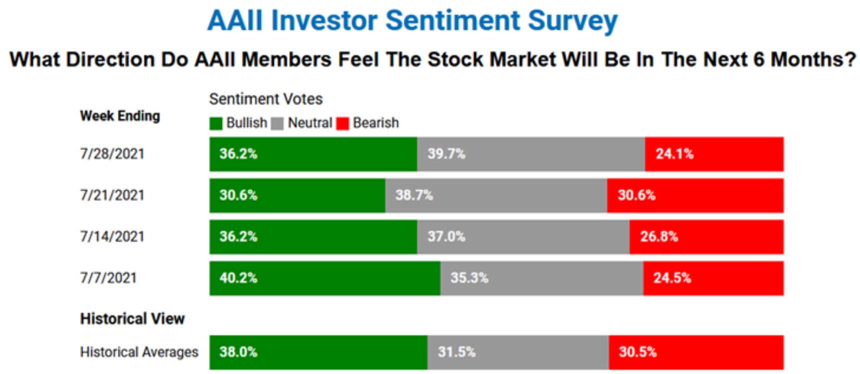
FEAR & GREED INDEX…EXTREME FEAR DESPITE NEAR-RECORD HIGHS



There is still a ton of frothiness in richly valued (or impossible to value) areas of the equity market and many argue that folks are too optimistic, but even with the S&P 500 near an all-time high, the *CNNMoney* Fear & Greed Index is heavily tilted toward pessimism. Extreme Fear readings for Safe Haven Demand, Put and Call Options, Stock Price Breadth and Stock Price Strength are offset only by Greed in Market Momentum.

…and another is showing a lower level of Bullishness than normal.

AAII SENTIMENT – BULLISHNESS RISES & BEARISHNESS 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	902	0.27%	0.23%	1.27%	1.14%	3.69%	3.30%	7.22%	6.47%
ABOVE	8.1	62.9	870	0.17%	0.15%	0.51%	0.42%	1.91%	1.66%	4.46%	3.98%
	Ten Groupings of 1772 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	174	0.34%	0.31%	0.95%	0.82%	3.86%	3.51%	7.22%	6.45%
3	-7.2	-1.2	177	0.33%	0.30%	1.51%	1.41%	3.31%	2.90%	7.16%	6.52%
4	-1.2	3.0	179	0.08%	0.04%	1.10%	1.01%	2.97%	2.61%	6.40%	5.87%
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	161	0.11%	0.09%	0.32%	0.19%	1.43%	1.20%	4.48%	3.98%
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%	0.72%	0.65%	2.02%	1.74%	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%

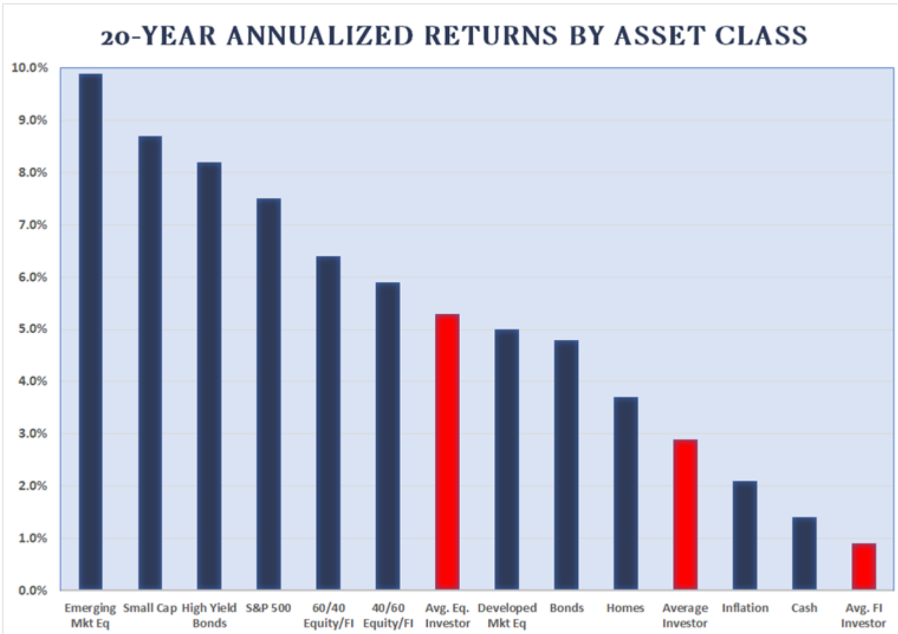
From 07.31.87 through 7.29.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 5.6-point jump in the number of Bulls in the latest AAII Sentiment Survey released on July 28, 2021, was a modestly negative sentiment sign, though the 12.1-point Bull-Bear spread was in the 6th decile of the historical figures.

None of the above is meant to suggest that an all-clear signal has been sounded for equities and we are always braced for downside volatility, but we continue to believe that the secret to success in stocks is not to get scared out of them.

THE PRUDENT SPECULATOR

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.

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*.

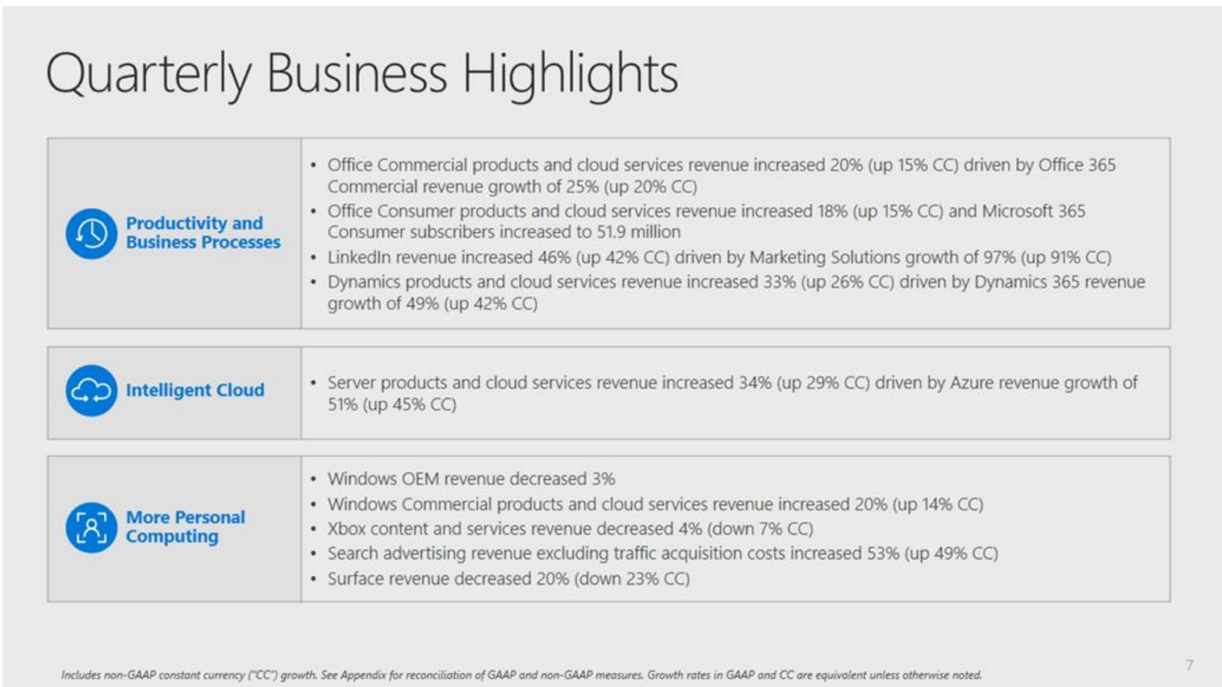
Jason Clark, Chris Quigley and Zack Tart look at more than a few of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices. We are also in the process of posting updated Target Prices for all of our recommended stocks to theprudentspeculator.com.

Computing giant **Microsoft** (MSFT – $284.19) earned $2.17 per share in fiscal Q4 2021 (vs. $1.92 est.). MSFT had total revenue of $46.2 billion, versus the $44.3 billion estimate. While Microsoft’s results were well ahead of estimates, the share price actually dropped more than $4 last week. Still, MSFT shares are up 28% this year and the company’s market capitalization is $2.14 trillion.

MSFT CEO Satya Nadella said, “We had a very strong close to our fiscal year. Our commercial cloud surpassed $69 billion in annual revenue, up 34%. We’re seeing revenue growth across industries, customer segments and geographies, with over 50% of sales coming from outside the United States. We continue to grow new franchises for Microsoft in large and growing markets. In the past 3 years alone, gaming, security and now LinkedIn have all surpassed $10 billion in annual revenue.”

THE PRUDENT SPECULATOR

MSFT – GENERALLY TERRIFIC NUMBERS



Mr. Nadella offered comments on the Cloud, “Moving forward, every organization will need more ubiquitous and decentralized computing. We’re the only cloud provider with the capabilities to support every organization’s multi-cloud hybrid and edge needs. Over the past year, we have added new data center regions in 15 countries across 5 continents, delivering faster access to cloud services and addressing data residency requirements. And now we’re taking cloud compute to the edge with 5G deployments. Our new Azure Edge services help operators and enterprises deliver ultra-low latency compute fabric. And we’re also helping operators run their networks in the cloud. AT&T chose Azure to power its 5G core network, making it the first Tier 1 operator to move its existing customer traffic to the public cloud.”

CFO Amy Hood offered a detailed outlook, “Accelerating digital transformation and consistent strong execution should drive another quarter of growing commitment to our Microsoft Cloud. In

Commercial bookings, our core annuity sales motions should drive healthy growth on a growing expiry base even against a strong prior year comparable. As always, quarterly volatility in bookings can be driven by an increasing mix of larger long-term Azure contracts, which are more unpredictable in their timing. Commercial cloud gross margin percentage should decrease roughly 1 point year-over-year, with roughly 4 points of negative impact from the change in accounting estimate. Excluding the accounting change, Q1 gross margin percentage will increase despite revenue mix shift to Azure driven by continued improvement across our cloud services on a prior year comparable impacted by strategic investments…we remain focused on driving revenue growth as we invest boldly against the strategic high-growth opportunities ahead that will deliver significant value to our customers worldwide. Our outlook for FY ’22 reflects this: with healthy double-digit revenue and operating income growth.”

Microsoft remains one of our larger holdings, a position we are comfortable with at present. The company has seen tremendous growth in Azure, complemented by growth in the Xbox gaming platform and business-social network LinkedIn. We think the growth trends are unlikely to slow for the foreseeable future, a result in part of MSFT cementing its position in the tech world during the pandemic. Of course, technology changes quickly and Microsoft can’t rest on its laurels, but for now, the company’s position looks robust. Our MSFT Target Price has been increased to $316.

Shares of **Apple** (AAPL – $145.86) slumped despite the technology hardware designer and manufacturer posting terrific quarterly results with broad revenue growth. Apple earned $1.30 per share in fiscal Q3, compared with analysts’ expectation of $1.01. AAPL’s revenue was $81.4 billion, more than $7.5 billion ahead of the consensus estimate. The company did not offer specific guidance due to COVID, which seemed to irritate some analysts, but did indicate directionally that Q4 is expected to see double-digit year-over-year revenue growth along with greater supply constraints than encountered in the June quarter.

CEO Tim Cook commented, “We set a new June quarter revenue record of $81.4 billion, up 36% from last year, and the vast majority of markets we track grew double digits, with especially strong growth in emerging markets, including India, Latin America and Vietnam. Total retail sales also set a June quarter record, and almost all of our retail stores have now opened their doors. This quarter saw a growing sense of optimism from consumers in the United States and around the world, driving renewed hope for a better future and for all that innovation can make possible. But as the last 18 months have demonstrated many times before, progress made is not progress guaranteed. An uneven recovery to the pandemic and a Delta variant surging in many countries around the world have shown us once again that the road to recovery will be a winding one.”

Mr. Cook concluded, “Our greatest source of inspiration isn’t technology itself but how people use it in their own lives in ways great and small: to write a novel or to read one; to care for an ailing patient or see a doctor virtually; to track their heart rate on a jog or to train for the Olympics. Every day, I’m grateful for the dedication of our teams to the simple mission of creating technology that improves people’s lives. And I want to thank everyone at Apple for the purpose and passion they bring to that mission.”

CFO Luca Maestri offered a financial update, "We ended the quarter with $194 billion in cash plus marketable securities. We retired $3 billion of term debt and increased commercial paper by $3 billion, leaving us with total debt of $122 billion. As a result, net cash was $72 billion at the end of the quarter. As our business continued to perform at a very high level, we are also able to return $29 billion to shareholders during the June quarter. This included $3.8 billion in dividends and equivalents and $17.5 billion through open market repurchases of 136 million Apple shares. We also began a $5 billion accelerated share repurchase program in May, resulting in the initial delivery and retirement of 32 million shares."

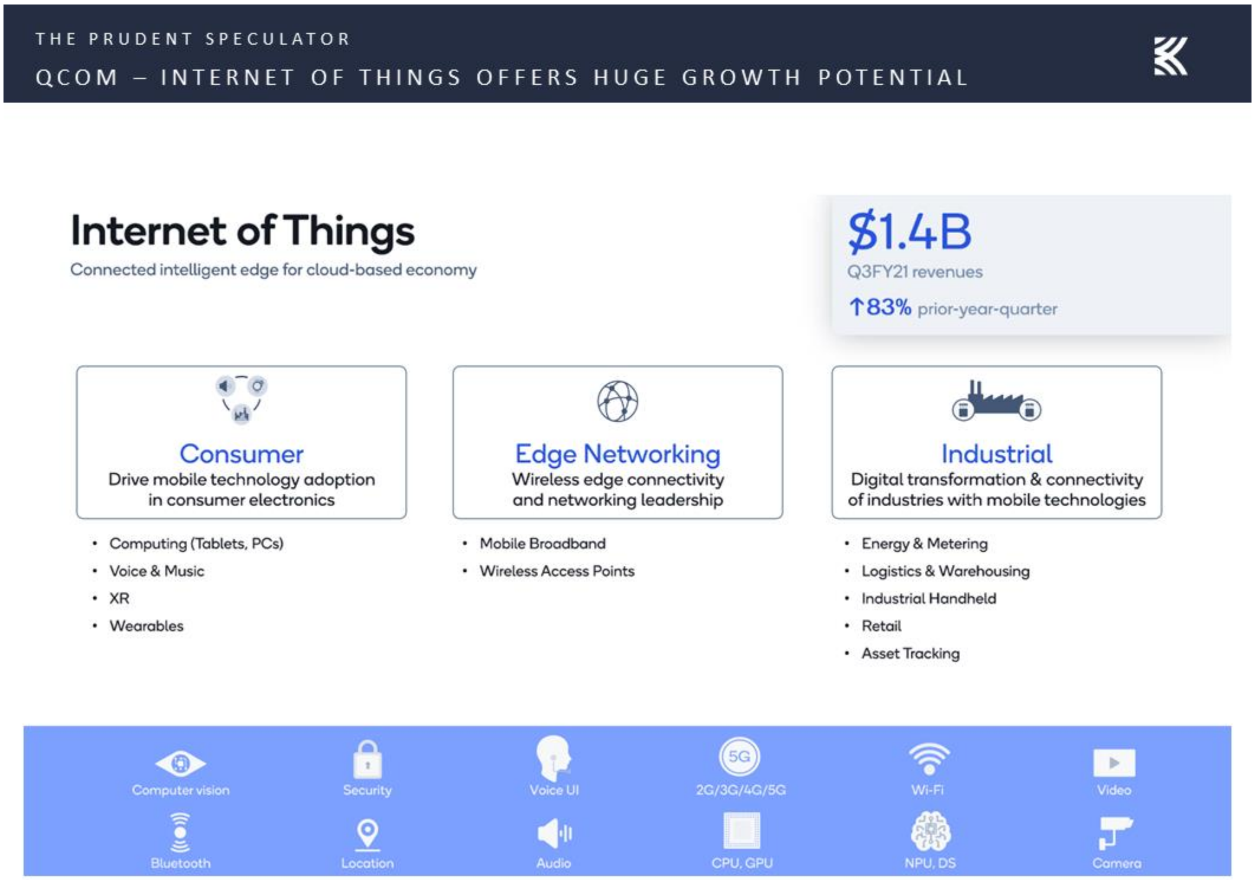
We are glad that Apple recently hiked its dividend, but the 0.6% yield still remains far below what the company is capable of paying. We expect a new batch of iPhones in the fall, while the 5G-capable iPhone 12 continues to sell well. The company's M1 chip, which powers the iPad Pro, iMac and MacBook, has been highly popular and we expect sales to remain strong. Like many companies, Apple may continue to experience supply chain challenges for the foreseeable future, and we expect management will stay on top of any issues that might arise as a result. We continue to be fans of Apple and our Target Price has been boosted to $171. It remains one of the largest holdings in our broadly diversified portfolios, which we are comfortable with at present despite its stretched valuation relative to its own history.

Semiconductor designer **Qualcomm** (QCOM – $149.80) earned $1.92 per share in fiscal Q3 2021 (vs. $1.69 est.). QCOM had adjusted sales of $8.00 billion (vs. $7.57 billion est.). Qualcomm reported strength in the QCT (Qualcomm CDMA Technology) and QTL (Qualcomm Technology Licensing) businesses. The QCT business experienced good quality mix and lower unit sales in India and China, while the QTL segment benefitted from premium-product-oriented 5G adoption, booming automotive demand and Internet of Things growth.

CEO Cristiano Amon said, "We are seeing demand across virtually every industry because our products and technologies are essential ingredients that enable digital transformation in the cloud economy. We are leading and expect to continue to lead in mobile. In addition, we also expect to lead the evolution of the connected intelligent EDGE by transforming connectivity and processing in cars, the enterprise, the home, smart factories, next-generation PCs and tablets, XR, wearables and many more. This is the foundation of our revenue diversification strategy… Most importantly, we are on track to realize approximately $10 billion in combined revenues across IoT, RF front-end and automotive in fiscal year '21, validating the positive financial impact of our revenue diversification strategy."

Mr. Amon continued, "Now I will provide an update on 2 key drivers for our handset revenues. First, we continue to be positively impacted by the growth in 5G and changing OEM landscape, resulting in the expansion of our addressable handset opportunity. Our Snapdragon 8 series mobile platforms have shown significant design win momentum. More than half of our 5G smartphone design wins to date are using our 8 series and total design wins for Snapdragon 888 increased more than 20% quarter-over-quarter…Second, we're still on track to materially improve supply by the end of the calendar year. We're securing incremental capacity across both leading and mature nodes and optimizing the allocation of our products across the global supply chain. We're also making progress with our multi-sourcing initiatives."

CFO Akash Palkhiwala added, “For calendar 2021, we’re maintaining our forecast for high single-digit growth for global 3G, 4G, 5G handsets, including 450 million to 550 million 5G handsets. Given the strong adoption of 5G in developed regions in China, we have a bias towards the high end of our 5G forecast. In the fourth fiscal quarter, we are forecasting revenues of $8.4 billion to $9.2 billion and non-GAAP EPS of $2.15 to $2.35. In QTL, we expect revenues of $1.45 billion to $1.65 billion and EBT margins of 69% to 73%…The strength of our QCT forecast reflects sequential growth across all revenue streams, including premium and high-tier device launches and operating leverage benefit from extending our mobile technology and investments across IoT and automotive.”



QCOM expects EPS for fiscal 2021 to come in around $8.24, which is nearly double the 2020 figure. Unlike many companies, 2020 wasn’t a trough year for QCOM in terms of EPS and was actually a sizable improvement over 2019’s $3.54. Qualcomm has spent considerable time and effort reshaping its business from a glorified law firm to a communications technology giant, which we think is finally showing through in earnings. We had lengthy discussions about the fairness of **Broadcom’s** (AVGO – $485.40) buyout offer around $80 per share in 2018 for QCOM (which was below our Target Price at the time), and we are glad that President Trump blocked the deal as shareholders have benefitted handsomely from an interest in the standalone company. QCOM shares are down slightly this year, and the valuation metrics are reasonable, including a forward P/E around 17 and dividend yield of 1.8%. Our Target Price has been boosted to $180.

Search engine and internet technology leader **Alphabet** (GOOG – $2,704.42) posted adjusted earnings per share of $27.26, versus the $19.35 estimate, in Q2 2021. GOOG had adjusted sales of $51.0 billion, versus the $46.1 billion estimate. With the company crushing forecasts on the top and bottom lines, shares gained more than 3% to set another all-time high on July 27, before pulling back later in the week. One might have expected a much bigger share price spike, but with the stock having gained nearly 55% this year, another expectation-beating quarter was evidently baked into the price.

CEO Sundar Pichai commented, “We saw a rising tide of online consumer and business activity. We are proud that our services helped so many businesses and partners. In fact, we set a number of records this quarter. This quarter, publisher partners earned more than they ever have from our network. We also paid more to YouTube creators and partners than in any quarter in our history. And on top of that, over the past year, we have sent more traffic to third-party websites than any year prior, in addition to generating billions of direct connections like phone calls, directions, ordering food and making reservations that drove customers and revenue to businesses around the world that are working to get back on their feet.”

Mr. Pichai continued, “This quarter, we saw 3 distinct trends. First, the increase in cyber and ransomware attacks is a wake-up call for the industry. Over 2 decades, Google has built some of the most secure computing systems in the world, and we are proud that our Google Cloud customers can benefit from our experience here… Second, our expertise in real-time data and analytics continues to differentiate us in the data cloud, one of the fastest-growing segments of the market. BigQuery is not only a data warehouse, it’s a platform for customer innovation, and it’s helping drive our strong year-over-year growth with customers like HCA Healthcare, who will be using BigQuery to analyze data to improve clinical care. Third, Google Workspace continues to show strong growth, particularly in the enterprise space because we have designed the product to meet the challenges of hybrid work. This includes the announcements we made at IO about Smart Canvas as well as expanding our advanced security and compliance capabilities and solutions for front-line workers.”

Chief Business Officer Philipp Schindler added, “We are pleased with the growth in Google Services revenues in the second quarter. Year-on-year performance reflects elevated consumer online activity, broad-based strength in advertiser spend and the lapping of the first ever revenue decline in our ads business last year due to COVID. In the second quarter, retail, again, was by far the largest contributor to the year-on-year growth of our ads business. Travel, financial services and media and entertainment were also strong contributors.”

CFO Ruth Porat offered the outlook, “In the second quarter, revenues benefited from an FX tailwind of more than 4% at the consolidated level. Based on FX spot rates against the dollar relative to the third quarter of last year, we expect a more muted tailwind to revenues in the third quarter. In terms of outlook by segment, for Google Services, the benefit to revenue growth in Q2 from lapping the effect of COVID last year will diminish through the balance of the year as we begin to lap stronger performance in the second half of 2020. In the second quarter, we continued to benefit from elevated consumer online activity and broad-based strength in advertiser spend. We believe it is still too early to forecast the longer-term trends as markets reopen, especially given the recent increase in COVID cases globally."

Alphabet had $16.4 billion of free cash flow in Q2 and finished the quarter with $136 billion of cash and marketable securities on hand. The board also approved an amendment to the existing $50 billion share repurchase plan which allows the repurchase of Class A and Class C shares. Unfortunately, even with the mountain of cash, GOOG does not pay a dividend, but share repurchases also count as return of capital so we can't complain too much. We think the long term for Alphabet remains bright, and while the company's valuation is not super inexpensive (the forward P/E is in the 25 range, but it drops near 20 by using 2023 estimates), we believe the terrific balance sheet and great opportunities ahead make it an attractive holding. Regulatory risk always seems to linger for GOOG and Big Tech names, but at this point, it's not something that keeps us up at night. Our Target Price for GOOG has been hiked to $3,091.

Semiconductor equipment firm **Cohu** (COHU – $35.41) earned an adjusted $0.90 per share in fiscal Q2 2021 (vs. $0.79 est.). COHU had sales of $244.8 million (vs. $243.4 million est.). Shares tumbled 7% following the announcement before retracing a portion of the decline on Friday. COHU expects Q3 2021 revenue between $220 million and $235 million, with EBITDA (earnings before interest, taxes, depreciation and amortization) growth around 21% and a shrunken gross margin around 42%. The sales outlook was below expectations.

CEO Luis Muller explained, "We are benefiting from the ongoing 5G technology ramp in mobility, selling RF testers and turret handlers, also robust automotive demand for our tri-temperature handlers and contactors, mainly for testing battery management systems and ADAS devices. Our contactor revenue increased 33% year-over-year, with significant design wins for testing new products from customers in the mobility and automotive segments. We made good progress improving contactor operational efficiencies and expanding manufacturing in-sourcing in the Philippines, all leading to 270 basis points gross margin improvement quarter-over-quarter in the contactor business that is key to our midterm strategic plan. Overall, gross margin in the second quarter was in line with guidance, reflecting a sharp increase in handler sales and higher supply chain costs as discussed when we provided Q2 guidance. We have been working to pass on these cost increases to our customers and have substantially completed the process that will take effect over the next few quarters."

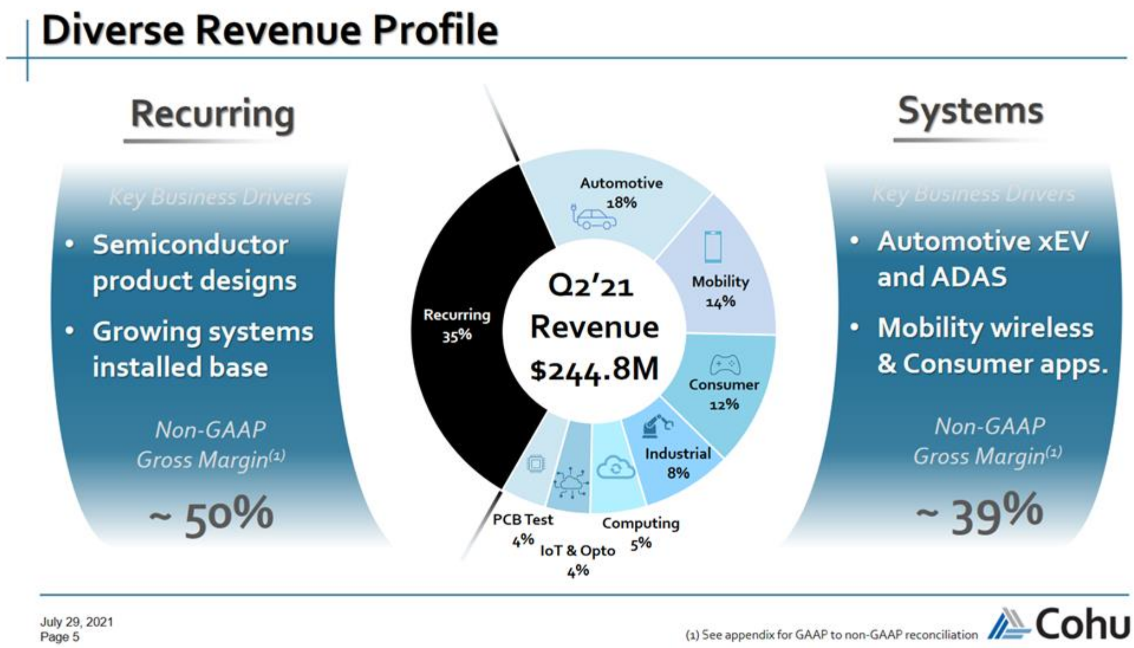
Mr. Muller continued, "Now looking ahead, we're encouraged by design wins with our Neon inspection platform, gains in RF and automotive tests, revenue and margin expansion in our contactor business. At the same time, we're working through a period of supply chain disruption and cost increases that will, unfortunately, weight negatively on the third quarter. We're trying to be cautious but set realistic targets for third quarter, and we will avoid getting ourselves too far into fourth quarter details this time around."

CFO Jeff Jones added, "Entering Q3, our order backlog and utilization of equipment at our customers' test facilities remain strong. However, as Luis described, we are experiencing some material shortages and COVID-related constraints at several of our suppliers. Because of these supply chain constraints, we are forecasting approximately $14 million of originally scheduled

Q3 revenue related to handler shipments will be delayed to Q4. As a result, we're guiding Q3 sales to be between $220 million to $235 million…For Q3, we are forecasting gross margin to be approximately 42% mainly due to product mix…We expect Q3 adjusted EBITDA at the midpoint of guidance to be approximately 21%. The Q3 forecast non-GAAP tax rate is approximately 18% at the midpoint of guidance. As previously stated, most of Cohu's profits are generated offshore and subject to statutory rates in various foreign jurisdictions. Income taxes on profits generated in the U.S. are mitigated by net operating loss carryforwards and tax credits. The diluted share count for Q3 is expected to be approximately 49.6 million shares."

THE PRUDENT SPECULATOR

COHU – GROWTH OPPORTUNITIES ABOUND



The 5G rollout is a hot topic across the entire Tech sector, and we were pleased to see Cohu benefitting handsomely from the global technology equipment investment even though expected supply chain disruptions have impacted the outlook. Shares trade for a reasonable 12 times forward earnings and profits are projected by analysts to grow above $3.00 this year, compared with $1.19 in 2020 and $0.09 in 2019. Still, our Target Price for COHU has been trimmed to $58.

Shares of **Benchmark Electronics** (BHE – $26.40) jumped almost 6% last week after the electronics device designer and manufacturer delivered Q2 results that included top- and bottom-line beats of the consensus analyst estimates. For the three-month period, BHE said its revenue reached $544.7 million, versus expectations of $530 million. Adjusted EPS in Q2 was $0.27, compared to the forecast of $0.26. Revenue for the period was above the midpoint of the company's previous guidance and was up 11% year-over-year. Sales benefited from the continued momentum in the Semi-Cap market as well as stronger demand from customers deploying broadband infrastructure solutions in the telecom sector. Additionally, BHE said it was seeing early signs of recovery in some sub-sectors of the industrial markets.

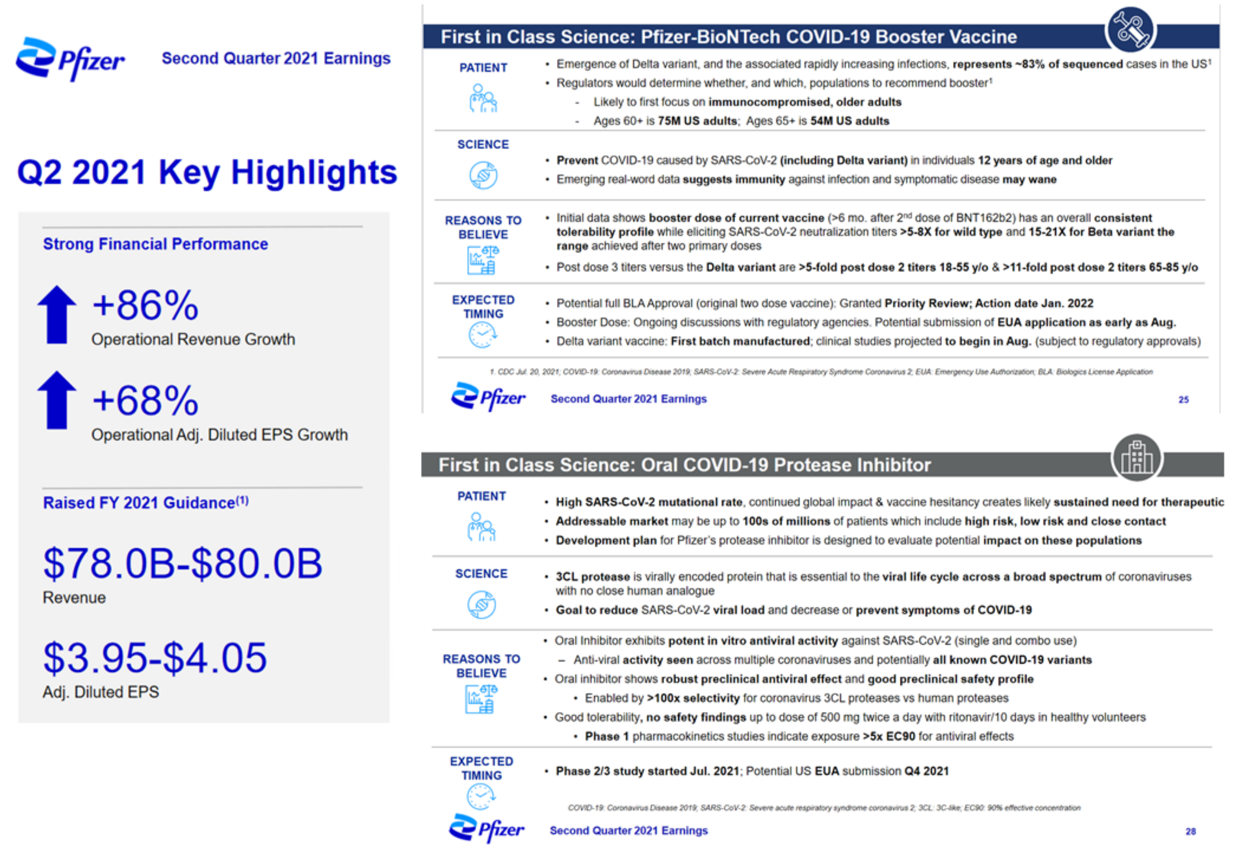
"In the second quarter, we delivered double digit revenue growth year-over-year from continued strength in the Semi-Cap market, improving Industrials demand, and strength in the Telecommunications sector," said CEO Jeff Benck. "Additionally, we expanded gross and operating margins supported by our strong revenue growth. I am particularly pleased with our team's execution in the quarter given the challenges related to the global supply chain constraints and facility disruptions in Malaysia related to the pandemic. Strong end market demand, new program ramps, and operational execution provide momentum for sequential growth in revenue and gross margins through the balance of 2021."

Managements said that it sees adjusted EPS for Q3 coming in between $0.33 and $0.41, with the consensus estimate heading into the announcement at $0.36. Additionally, company revenue projections for Q3 came in at a range of $555 million to $595 million. The consensus analyst estimate had been $555.5 million.

We like the steps management has taken to diversify its customer base, as well as its new focus on ESG and sustainability, which should help the business thrive over the long term. Benchmark continues to invest in growth projects, while paying out a 2.5% yield to shareholders and maintaining a balance sheet with net cash. Our Target Price for BHE has been elevated to $37.

Pharmaceutical giant **Pfizer** (PFE – $42.81) posted EPS of $1.07 in Q2, a significant bump over the $0.66 earned a year ago, and better than the $0.78 consensus analyst estimate. Strong performance within Oncology and Hospital segments contributed to 10% year-over-year comparable revenue growth to $19 billion, with $7.8 billion generated from the COVID-19 jab. Shares rose 3% on the announcement but gave back some ground before the week's end.

CEO Dr. Albert Bourla commented, "The second quarter was remarkable in a number of ways. Most visibly, the speed and efficiency of our efforts with BioNTech to help vaccinate the world against COVID-19 have been unprecedented, with now more than a billion doses of BNT162b2 having been delivered globally. In addition, we are equally proud of the second-quarter performance of our business excluding BNT162b2, which posted 10% operational revenue growth. Looking forward, we remain highly confident in our ability to achieve at least a 6% compound annual growth rate through 2025 and intend to build upon our recent successes by continuing to follow the science, trust in our people and remain focused on delivering breakthroughs for the patients we serve."



CFO Frank D'Amelio added, "Pfizer's second quarter performance highlighted once again the underlying strength of our business, with consistent and solid growth coming from multiple products and categories. It is important to point out that the 10% year-over-year operational revenue growth rate for our business excluding BNT162b2 comes on top of a strong 6% operational growth rate delivered by the comparable business in the second quarter of last year."

In hopes that it may attract more folks to get the shot, the FDA vowed Friday to put forth an 'All-Hands-on-Deck' effort to "identify ways to expedite approval of the Pfizer COVID-19 jab, which is currently being administered under the FDA's emergency use authority," according to Peter Marks at the FDA's Center for Biologics Evaluation and Research. Some $33.5 billion of revenue is now expected from delivery of the vaccine in 2021, contributing toward management's decision to raise earnings and revenue guidance to $4.00 per share and $79.0 billion at the midpoint of their respective ranges.

While there would seem to be plenty of revenue opportunities still to come related to COVID-19, the outlook for how boosters or other therapeutics will translate to Pfizer's bottom line is uncertain. Nevertheless, we still believe that the market underappreciates Pfizer's emerging pipeline of products and management's increasing confidence in its organic growth potential.

Shares trade for just 11.5 times forward earnings expectations and boast a robust dividend yield of 3.6%. Our Target Price for PFE now stands at $55.

Shares of **Caterpillar** (CAT – $206.75) fell a bit more than 1% last week, even though the heavy equipment giant reported a solid Q2. Adjusted EPS for the period came in at $2.60, versus the consensus analyst estimate of $2.40. Revenue was $12.2 billion, compared to the forecast of $12.1 billion. Sales rose 29% in Q2, reflecting widespread recovery and sales growth in all segments and regions. User demand is the source of sales growth as both volumes and price realization were widely positive. Oil & gas end markets improved, aided by engine aftermarket parts demand, spurring a quicker recovery than was expected in this business.

CAT CEO Jim Umpleby commented, "Our dedicated global team remains focused on serving our customers, executing our strategy and investing for future profitable growth. We're encouraged by higher sales and revenues across all regions and in our three primary segments, which reflect continued improvement in our end markets…Similar to the first quarter of this year, dealer inventory remains near the low end of the normal range. In spite of the unprecedented challenges impacting the industrial sector, I'm proud of the work by our team to minimize disruptions, which were relatively modest during the second quarter for the majority of our products, availability remains within our normal ranges. We mentioned on the last earnings call that the supply chain situation, including transportation, was challenging. And that our team was preparing contingency plans such as alternative assembly processes at our facilities."

Mr. Umpleby added, "In light of the highly fluid environment, we will continue our practice of not providing profit per share guidance. However, we'll share some high-level assumptions for the upcoming quarter and the full year. For 2021, as we said on the last earnings call, we expect to achieve the targets for adjusted operating profit margin that we set out at our 2019 Investor Day of 300 basis points to 600 basis points of improvement versus our performance during the 2010 to 2016 period at similar sales — similar levels of sales and revenues. We also expect to achieve the free cash flow targets we set for ME&T at Investor Day of an incremental $1 billion to $2 billion at all points in the cycle."

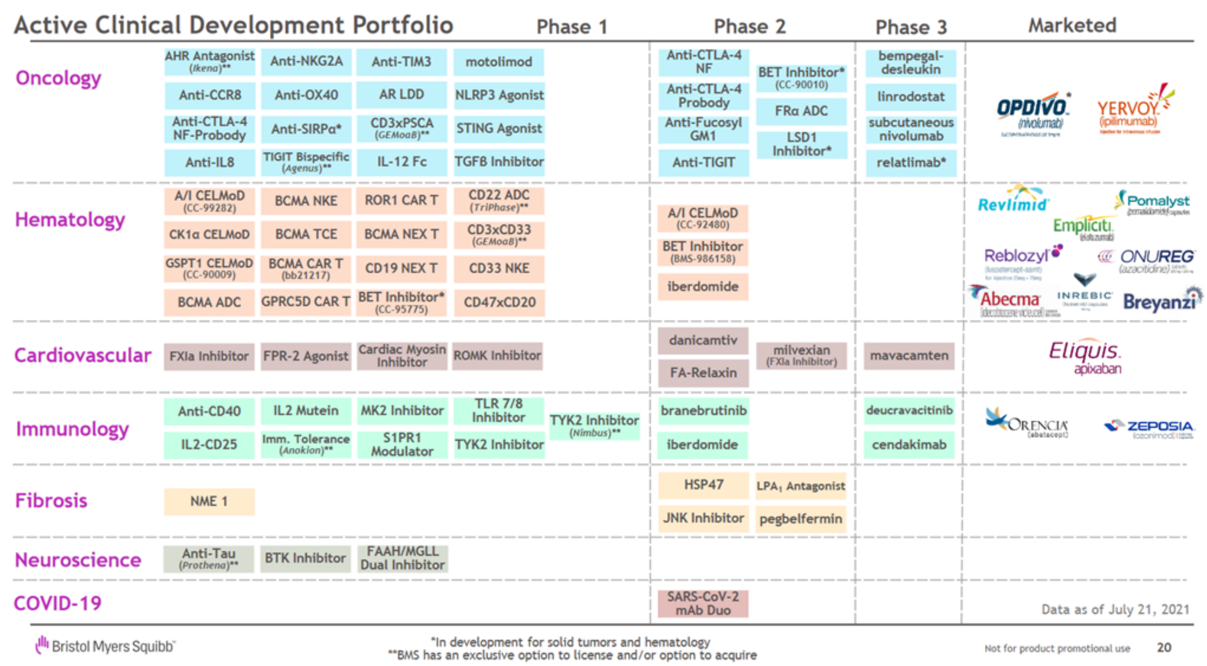
Construction machinery is probably what CAT is best known for, but the company also produces plenty of mining equipment and sells a full array of products abroad, lowering the U.S.-specific risk. We think the diversification is important to CAT's resiliency and note that analysts now expect earnings to grow from $9.99 this year to $14.11 in 2023. Although the valuation is no longer cheap as shares currently change hands above 19 times NTM adjusted EPS projections and we took some of our CAT money off the table back in March in the $230 range, we still see the growth potential as substantial (including the potential infrastructure spend in the U.S., which is desperately needed). The yield is now 2.2% and our Target Price for our remaining CAT holdings has been bumped up to $264.

Biopharmaceutical concern **Bristol Myers Squibb** (BMY – $67.87) posted earnings of $1.93 per share in Q2 (versus the $1.89 estimate) on revenue of $11.7 billion, which represented 13% growth year-over-year net of foreign exchange effects. Management also offered full year EPS guidance of $7.35 and $7.55.

BMY CEO Giovanni Caforio, M.D. commented, “During the second quarter, we delivered excellent results across the board, including strong sales growth due to solid commercial performance, positive clinical results in our mid- and late-stage pipeline, continued BD execution and strengthened our financial position. The strength of our commercial execution this quarter was underscored by the performance of our key medicines, including the return of Opdivo to growth and the uptake of our new launch portfolio. Over the last 18 months, we launched 5 new medicines with significant potential, and we are very encouraged by their performance to date. Clinically, we continue to deliver on the potential of our pipeline with significant mid- and late-stage clinical readouts and important regulatory actions across our therapeutic areas. The recent additions to our portfolio added diversification to our business and an opportunity to generate sustained growth over time.”

THE PRUDENT SPECULATOR

BMY – ROBUST PIPELINE WITH HISTORY OF PRODUCING BLOCKBUSTERS



Dr. Caforio added, “Our strong clinical performance further derisks our launch portfolio. And as a result, our confidence in our ability to deliver the $20 billion to $25 billion in non-risk-adjusted revenue in 2029 continues to increase. Our continued strong financial performance and balance sheet enable us to diversify and strengthen our long-term prospects. As our sales force returns to the field and we welcome our remote teams back to the office, I’m excited by the opportunity to reconnect with our colleagues, stakeholders and patients. I believe we have the strongest pipeline and launch portfolio in BMS’ history, and I am very excited about our future.”

With the first full year since its acquisition of Celgene under its belt, BMY continues to work through integration headwinds and an elevated debt balance. Nevertheless, we like that a large portion of Bristol's late-stage pipeline focuses on immunology and cancer indications, areas with favorable pricing and where the FDA has been aggressively approving drugs. BMY has a heritage of supporting its pipeline by bringing in partners to share the development costs and diversify the risks of clinical and regulatory failure, and the Celgene acquisition moves Bristol further into the specialty pharma segment. Management has already put to work $3 billion of the $4 billion allotted by the Board for share repurchases earlier in the year and has stated the company intends to spend opportunistically throughout the remainder of the year. High-quality BMY trades for a very inexpensive forward-earnings multiple below 9 and yields 2.9%. Our Target Price has been lifted to $103.

Global defense contractor and security company **Lockheed Martin** (LMT – $371.81) reported Q2 EPS of $6.52 (just shy of the $6.53 expected by analysts) on revenue of $17.0 billion, a 5% improvement year-over-year. The Aeronautics segment, representing 39% of total sales, continued to stand out, driven in large part by F-35 revenue. Lockheed's backlog ebbed a bit in the quarter but still represents a hefty $141.7 billion, which gives us continued confidence in its future revenue-generating ability. Management's forecast for the full-year 2021 remains mostly the same as it was in April, although the mid-point EPS number was moved a bit higher to $26.85.

CEO James Taiclet commented, "In my first year leading our company, I'm proud of the extraordinary resolve demonstrated by our 114,000 team members to rise above the challenges of the pandemic in support of our customers, our nation and our allies. This is reflected in our solid sales growth across each business area this quarter. Our teams continue to deliver on key platform programs while also advancing technologies critical for 21st century deterrence and scientific discovery. And as a result, we are maintaining our prior guidance for full-year sales, segment operating profit, and cash from operations, while raising guidance for full-year EPS."

Mr. Taiclet continued, "Similarly, the President issued an interim national security strategic guidance document, which incorporates key elements such as diplomacy, economic development, innovation, and modernizing our military capabilities into a broad framework for addressing accelerating global challenges. This guidance document places emphasis on deterrence, investments in emerging technologies such as artificial intelligence, and secure next-gen 5G infrastructure as well as the need for having strong defense and intelligence capabilities. We believe this vision is well aligned with our 21st century warfare strategy and plays to the strength of our broad portfolio and our culture of innovation at Lockheed Martin. Also in the quarter, the American Rescue Plan Act of 2021 stimulus package was enacted into legislation. This bill extended the CARES Act Section 3610 provision until September 30, 2021, enabling federal agencies to continue to reimburse contractors for the cost of keeping employees and subcontractors in a ready state as a result of the global pandemic."

LMT continues to benefit from the production ramp of the F-35 program, while international sales and additional contract wins in hypersonics, weapons systems, satellites and classified content combine to drive robust cash flow which should support continued share repurchases and dividends (the yield is 2.8%). We continue to like the combination of cost-plus contracts with

R&D effectively paid for by customers, and believe they offer the ability to use cash flow to return capital to shareholders. Having consolidated over the past few years, shares are available at a very attractive forward P/E of 13.5, the lowest of major defense prime contractor peers. Our Target Price for LMT now resides at $501.

Shares of **Hasbro** (HAS – $99.44) jumped more than 7% last week as the game and toy concern released Q2 financial results that overwhelmed consensus analyst estimates. Adjusting for the sale of its eOne music business (approximately $397 million of proceeds that will be reflected in Q3), the company earned $1.05 (versus the $0.46 estimate) on $1.3 billion of revenue as the business improved across the board to pre-pandemic levels. Hasbro's digital gaming franchise continues to deliver, supporting the firm's overall profitability with a 47% operating margin for the segment. With production back in full swing, the entertainment business benefitted from the release of multiple programs in the quarter, while the company inked content deals for properties My Little Pony, Peppa Pig and PJ Masks. Despite supply chain pressures for consumer products, management has arranged price increases that will go into effect in Q3.

THE PRUDENT SPECULATOR

HAS – FIRING ON ALL CYLINDERS

Second Quarter and Six Months Brand Portfolio Performance

($Million, unaudited)	Q2 2021	Q2 2020	% Change	YTD 2021	YTD 2020	% Change
Franchise Brands	$650	$377	+72%	$1,141	$773	+48%
Partner Brands	$212	$138	+53%	$400	$321	+25%
Hasbro Gaming[1]	$147	$137	+7%	$283	$277	+2%
Emerging Brands	$117	$76	+54%	$222	$170	+30%
TV/Film/Entertainment	$197	$132	+48%	$391	$425	-8%
Total	$1,322	$860	+54%	$2,437	$1,966	+24%

[1]Hasbro's total gaming category, including all gaming revenue, most notably MAGIC: THE GATHERING and MONOPOLY which are included in Franchise Brands in the table above, was $519M for Q2 2021, up 63% vs. $319M for Q2 2020 and $885M YTD 2021, up 34% vs. $659M YTD 2020.
Hasbro believes its gaming portfolio is a competitive differentiator and views it in its entirety.

The HAS content engine appears in full swing with movie releases scheduled for the big screen in the current quarter out through 2023, along with series on tap for distribution through Apple TV Plus and major television outlets. CEO Brian Goldner explained, "Audiences are returning to theaters, and we're supporting several key films, including in partnerships with Paramount, Snake Eyes: G. I. Joe Origins that premiered this past weekend; Marvel Studio's Black Widow that released earlier this month; as well as Marvel Studio's Spider-Man: No Way Home and Ghostbusters — Sony's Ghostbusters: Afterlife. Entertainment is the catalyst that unlocks the next level of value in our portfolio…In television, Cruel Summer premiered to very high ratings on Freeform and was picked up by the network for a second season. ABC renewed the Rookie for a fourth season, and we have commenced production. Apple TV Plus bought worldwide rights to our production of Come From Away, which is in post-production for release this fall. Additional film releases to come include Clifford, the Big Red Dog with Paramount; and Stillwater, directed by Tom McCarthy and starring Matt Damon. In Unscripted TV, our slate remains robust, with close to 40 active productions for Canada, the U.S. and U.K. The eOne team continues to develop and move into production of Hasbro IP of more than 200 projects in development across TV, film and animation, more than 30 Hasbro brands are being developed. Among the many active projects were in production on the Dungeons & Dragons live-action feature to premier in 2023, and we began principal photography with Paramount on the live action Transformers: Rise of the Beast coming June 2022."

We like that Hasbro continues to invest in its competitive position, and that it is chipping away at its debt balance (now $4.6 billion, down from $5.2 billion a year ago). Shares trade roughly in line with their 5-year average forward P/E multiple and boast a generous dividend yield of 2.7%. We've tuned our Target Price for HAS higher to $128.

New York Community Bancorp (NYCB – $11.78) announced that it earned $0.30 per share in Q2. The figure was in line with the consensus analyst estimate, but 14% and 57% higher, respectively, than Q1 and the year-ago period. Total deposits were unchanged compared to Q1 and stood at $34.2 billion as loans rose modestly to $43.6 billion. Net interest margin held steady at 2.5% despite a flattening of the yield curve throughout the quarter. Non-performing assets remained in check at just 7 basis points of total assets as of June 30. The bank remains reasonably capitalized with a CET1 ratio of 9.8% at the holding company. NYCB's acquisition target Flagstar Bancorp also released financial results in the prior week. The mortgage-focused bank earned $2.73 per share (versus the $2.08 estimate) even as mortgage demand retreated a bit from its peak in the back half of 2020. Shares of both banks rose roughly 7% following their respective announcements.

NYCB CEO Thomas R. Cangemi commented, "I am very pleased to report another strong quarterly performance highlighted by continued net interest margin expansion, lower operating expenses, good loan growth, solid credit quality trends, and most importantly, a significant year-over-year increase in earnings per share. In fact, this is the Company's best quarterly operating performance in over 15 years. Since being named CEO, it has been one of my top initiatives to bring in more core deposits from our multi-family and commercial real estate borrowers. These initiatives are beginning to bear fruit as loan-related deposits at June 30 increased $388 million or 22% annualized to $3.9 billion compared to December 30, 2020, balances. As a result of these initiatives, CDs as a percentage of total deposits have declined to 26% as of the current second quarter compared to 38% in the year ago quarter, while total deposits have increased. We will continue to focus on growing deposits through a variety of strategies, including by further penetrating our existing borrower base as well as expanding into the banking as a service space, through partnerships with fintech companies."

He also gave an update on the merger with Flagstar, "We are making significant progress on multiple fronts. Integration teams have been formed. We meet weekly, if not daily, on the integration planning process. To date, a number of key decisions have been, including selection of the technology platform and ancillary systems we will use and the products and services we will offer our combined customers. In addition, in an 8-K we filed subject to the completion of the planned merger, we have named our senior executive leadership team, reporting directly to me and who will support our strategic priorities going forward. Since we announced the merger, I've been spending more time with Sandro [Flagstar CEO] and his executive management team, and our shared vision of the combined organization is more evident as each day goes by. This, in my opinion, is not a traditional merger. It is an alliance, where we are taking the best of both companies and forming a much stronger, better position organization and creating significant value for everyone. The more time we spend looking at the 2 companies becoming one, the more excited we become about the combination. In addition to compelling financial metrics, including double-digit EPS accretion and immediate tangible book value creation, there are significant deposit growth opportunities, new lending opportunities and a substantial amount of fee income opportunities by cross-selling Flagstar's retail product set through the NYCB branch network."

Given the pandemic-related exodus of folks out of the Big Apple, we are delighted that NYCB's asset quality continues to hold up. Although an experienced player within its market, we still think the regional diversification is a good move as we have long been mindful of risks within the NYC multifamily market. Note that Flagstar has more than doubled its book value per share over the last decade, with much of the growth coming over the past 3 years. NYCB has stated that the current quarterly dividend of $0.17 is remaining intact, which puts the yield at 5.8% as of Friday's close. Our Target Price for NYCB is now $18.