Market Commentary Monday, August 9, 2021

August 9, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Buys and Sells
Record Highs – Stocks Have Overcome All Sorts of Adversity Through the Years
Corporate Profits – Stellar EPS Make Stocks Much Less Expensive Today than a Month Ago
Econ News – Terrific Jobs Numbers & ISM Non-Manufacturing Index
Fed Speak – Rate Hikes in 2023?
Interest Rates – Rising Rates Historically Good…for Value
Bonds – Investors Still Love Fixed Income
Contrarian Sentiment – Liking that Folks are Still Not Very Enthused About Equities
Stock News – Updates on EOG, HFC, GM, AMGN, CAH, ZBH, GT, AXAHY, ALIZY, ETN, PNW & KLIC

Market Review

A little housekeeping prior to this week's missive. As indicated on our July 29 *Sales Alert*, we sold 150 and 35 shares of **Eaton Corp PLC** (ETN – $162.89) respectively held in TPS Portfolio and Buckingham Portfolio at $158.6278 on August 2. We will also use that price to close out 53 and 105 of the ETN shares respectively held in our hypothetical portfolios, Millennium Portfolio and PruFolio.

On Thursday, August 5, as indicated in the August edition of *The Prudent Speculator*, we bought 1,659 shares of **Change Healthcare** (CHNG – $21.31) for TPS Portfolio at $21.08, as well as 15 shares of **Lam Research** (LRCX – $647.96) at $645.2408 and 45 shares of **TotalEnergies** (TTE – $44.61) at $44.835 for Buckingham Portfolio.

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

Millennium Portfolio
9 **General Dynamics** (GD – $199.08) at $195.52
170 **Kimco Realty** (KIM – $21.85) at $21.41
15 **Waste Management** (WM – $147.84) at $149.17

PruFolio
484 **Bank OZK** (OZK – $43.16) at $41.24

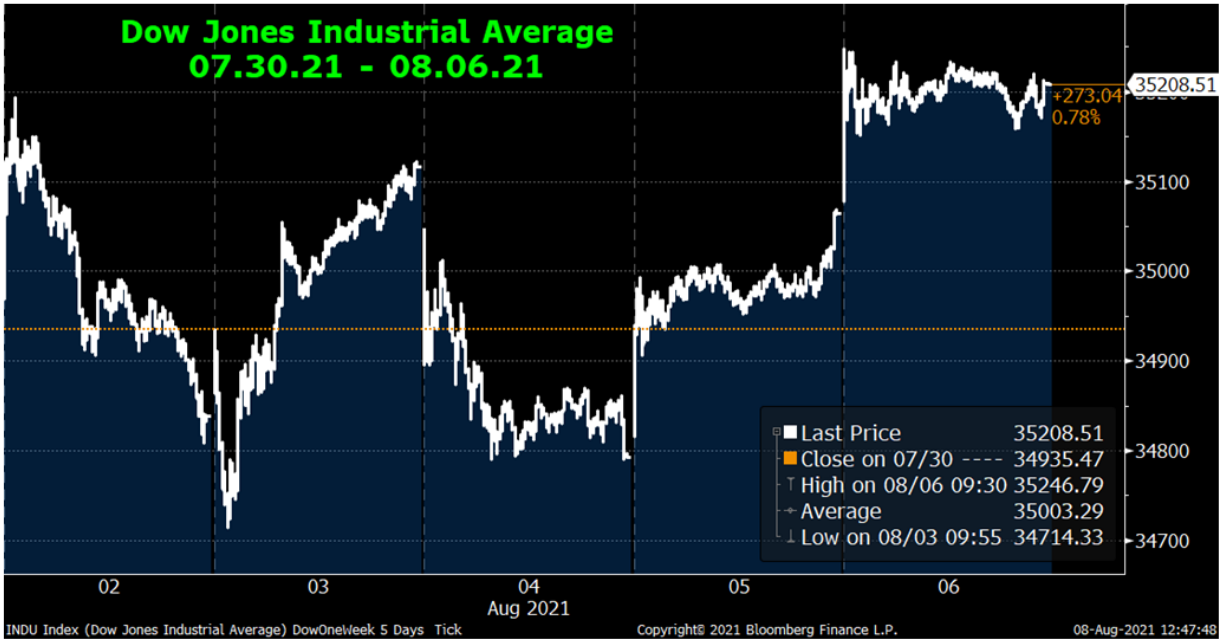
*****
Volatility picked up in the latest week, with bigger-than-usual gyrations up and down, before

stocks ended the five trading days nicely in the green. In fact, the Dow Jones Industrial Average closed at a record high,…

THE PRUDENT SPECULATOR

DOW JONES INDUSTRIAL AVERAGE ROLLER COASTER RIDE

With the Dow moving lower on Monday, higher on Tuesday, lower on Wednesday, higher on Thursday and higher still on Friday, traders were confused...as usual...about the near-term direction of stocks, even as the popular index closed the week at an all-time high.



…climbing back above the 35000 level,…

PERSPECTIVE: MANAGING EMOTIONS A CHALLENGE EVEN FOR 'EINSTEIN'

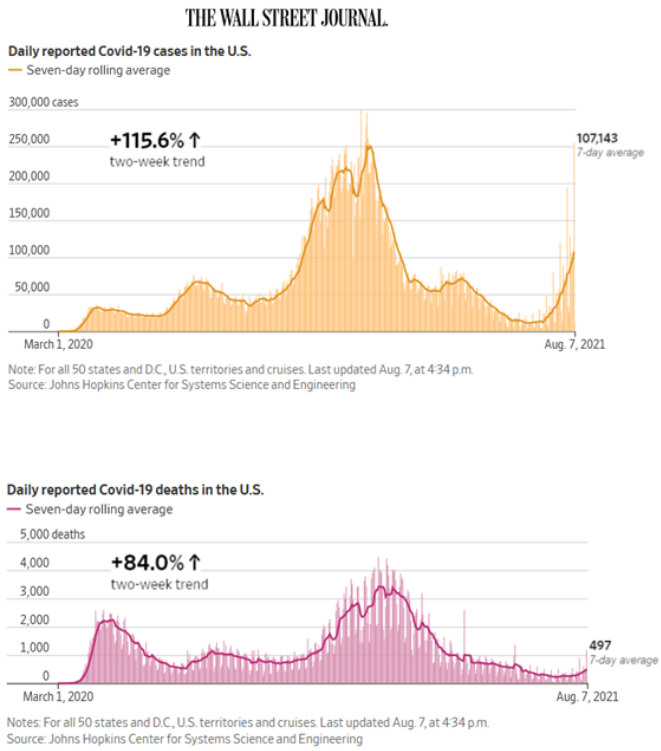
Given that he has had major health issues, it was nice to see Peter Tuchman's smiling face as the Dow Jones Industrial Average closed above 35,000 for the first time on 7.23.21.

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.

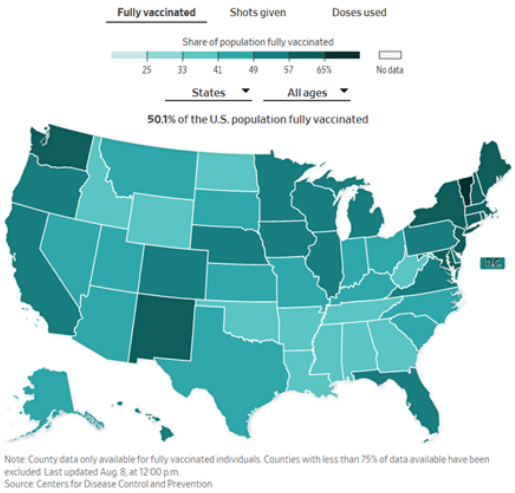
…even as news on the coronavirus front remained less than grand.

THE PRUDENT SPECULATOR

VACCINES VERY EFFECTIVE, BUT ONLY HALF THE U.S. IS FULLY JABBED



With the virus counts worse, not surprisingly, in states with lower vaccination rates, the spread of the Delta variant has caused a spike in COVID-19 cases, extending the health crisis and delaying a return to normalcy for Corporate America.



Of course, market history shows that stocks have managed to overcome previous health challenges,…

THE PRUDENT SPECULATOR

VIRUSUS HAVE YET TO KILL THE STOCK MARKET

September 29, 2014

March 30, 2020

Magazine Cover	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Time Magazine: The Aids Hysteria	7/4/1983	168.91	-2%	-1%	-9%	49%	61%	2527%
Time Magazine: The Truth About SARS	5/5/2003	926.55	4%	14%	21%	43%	52%	379%
Time Magazine: Avian Flu Death Threat	9/26/2005	1,215.63	4%	7%	10%	0%	-6%	265%
Time Magazine: H1N1 How Bad Will It Get?	8/24/2009	1,025.57	8%	8%	3%	38%	94%	333%
Bloomberg BusinessWeek: Ebola Is Coming	9/29/2014	1,977.80	6%	4%	-5%	27%	50%	124%
Time Magazine: Coronavirus	3/30/2020	2,626.65	18%	28%	51%			69%
Price Changes Only. Does not Include Dividends								
		Averages:	**6%**	**10%**	**12%**	**31%**	**50%**	**616%**

Source: Kovitz using data from Bloomberg. As of 8.6.21

August 24, 2009

September 26, 2005

May 5, 2003

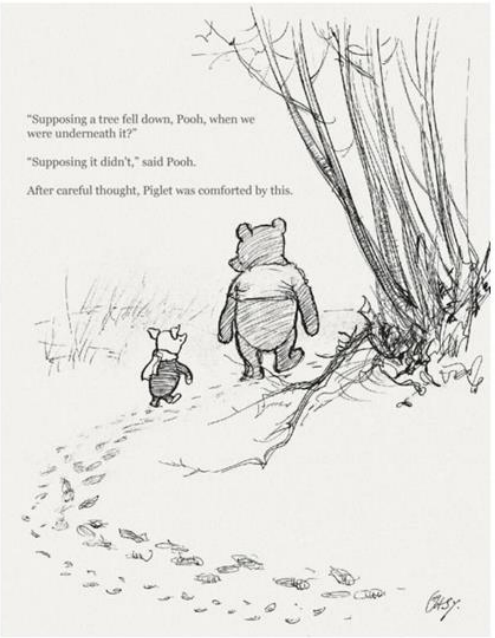
July 4, 1983

…not to mention numerous other disconcerting events,…

THE PRUDENT SPECULATOR

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

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



Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	293%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	240%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	270%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	209%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	211%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	168%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	141%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	122%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	119%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	115%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	111%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	120%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	114%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	136%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	110%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		107%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		65%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			62%
Biden Victory	11/3/2020	3,369.16	14%	24%				32%
Georgia Runoff	1/5/2021	3,726.86	9%	17%				19%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**14%**	**38%**	**72%**	**138%**

Source: Kovitz using data from Bloomberg. As of 8.6.21

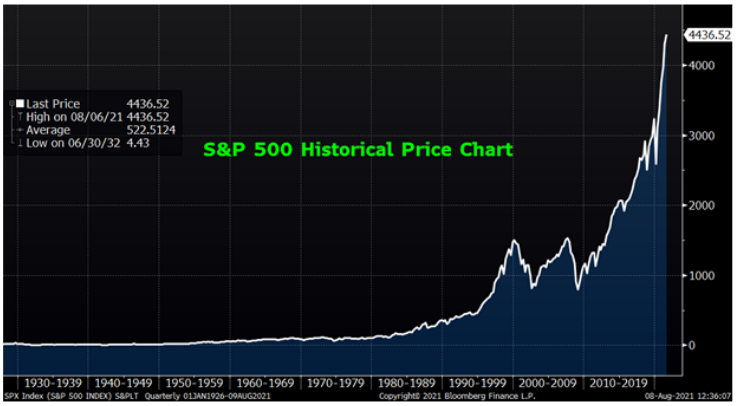
There is of course no guarantee that stocks will overcome every obstacle in their path, but just since the end of the Financial Crisis, the markets have pushed higher in the fullness of time despite plenty of disconcerting headwinds, including the threat of and eventual implementation of tighter monetary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

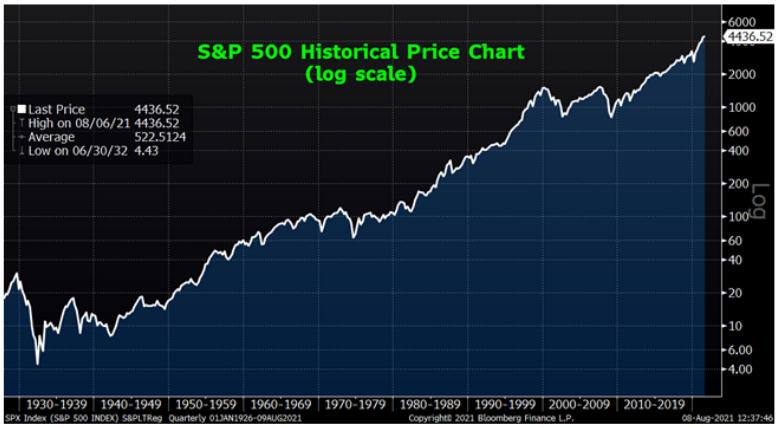
…with the evidence overwhelmingly illustrating why we constantly admonish that the only problem with market timing is getting the timing right.

THE PRUDENT SPECULATOR

UPS AND DOWNS BUT THE LONG-TERM TREND IS UP

The Bursting of the Tech Bubble in 2000-2002, the Financial Crisis/Great Recession in 2007-2009 and the COVID-19 Pandemic Crash of 2020 are about the only visible blips on the long-term (back to 1927) chart of the S&P 500 index, but if one utilizes a log-scale for the Y-axis, the swings of the equity markets over the past 90+ years are more easily evident. Of course, the long-term trend has been very favorable AND these charts show only price appreciation of the S&P 500, ignoring the historically lucrative impact of dividends and their reinvestment.





To be sure, we are not suggesting that it is up, up and away from here, as we know very well that stock prices can move in both directions, with trips south always part of the process.

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%	112.8%	989	27	3.4	3/23/2020	8/6/2021
17.5%	67.8%	579	39	2.3	3/23/2020	8/6/2021
15.0%	67.4%	562	45	2.0	3/23/2020	8/6/2021
12.5%	44.8%	338	72	1.3	3/23/2020	8/6/2021
10.0%	35.3%	247	98	0.9	3/23/2020	8/6/2021
7.5%	23.7%	149	157	0.6	9/23/2020	8/6/2021
5.0%	14.8%	73	306	0.3	10/30/2020	8/6/2021

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 8.6.21. 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

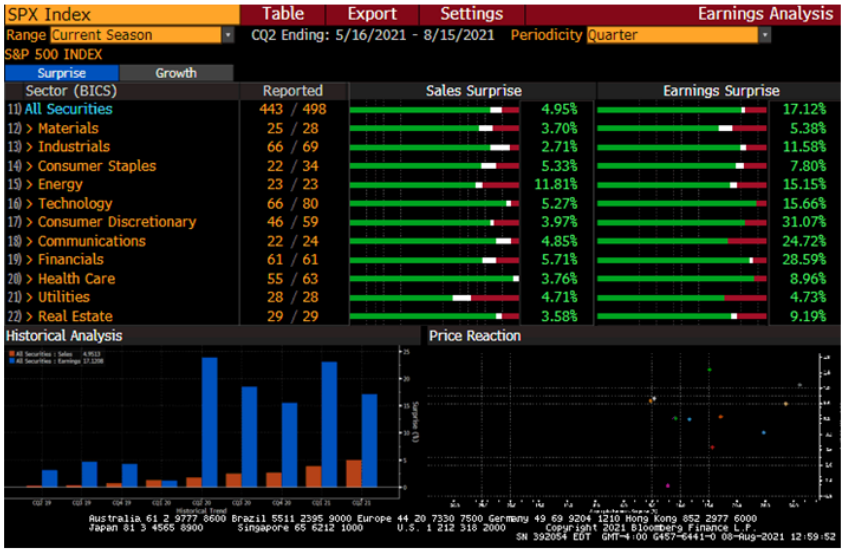
	Annualized Return	Standard Deviation
Value Stocks	13.3%	26.0%
Growth Stocks	10.0%	21.4%
Dividend Paying Stocks	10.7%	18.1%
Non-Dividend Paying Stocks	9.3%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 06.30.21. 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

But we like that second quarter earnings reporting season has been fantastic,…

EPS PLUNGED IN 2020 BUT SHOULD SOAR IN 2021 AND 2022

Q2 earnings reporting season has seen terrific results vs. analyst projections that are still too pessimistic in their top- and bottom-line estimates. Thus far, 85.5% of S&P 500 companies have topped EPS expectations and a whopping 83.2% 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	$56.84	$215.32
9/30/2022	$54.77	$208.93
6/30/2022	$53.00	$202.62
3/31/2022	$50.71	$198.90
12/31/2021	$50.45	$195.60
9/30/2021	$48.46	$183.33
6/30/2021	$49.28	$172.77
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 8.4.21

…so much so that the earnings yield on the S&P 500 has been rising, despite the index hitting yet another record. Believe it or not, the S&P is less expensive today (3.68% earnings yield) at 4436 and change than it was four weeks ago (3.24% earnings yield) when it closed at a then-record high of 4369.55.

THE PRUDENT SPECULATOR

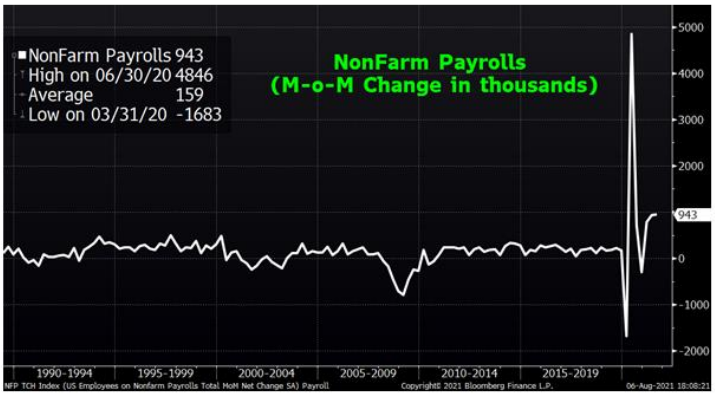
INTEREST RATES VERY SUPPORTIVE OF STOCKS

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 (3.68% vs. 1.30% 10-Year) and comparatively generous S&P 500 dividend yield of 1.32%.

Obviously, the health of the U.S. economy will be critical to corporate profits as we move deeper into the second half of the year, so it was good to see the all-important July Employment Situation Summary significantly exceed expectations in terms of the number of new jobs created,…

THE PRUDENT SPECULATOR

HUGE INCREASE IN JOBS, AND ABOVE FORECASTS

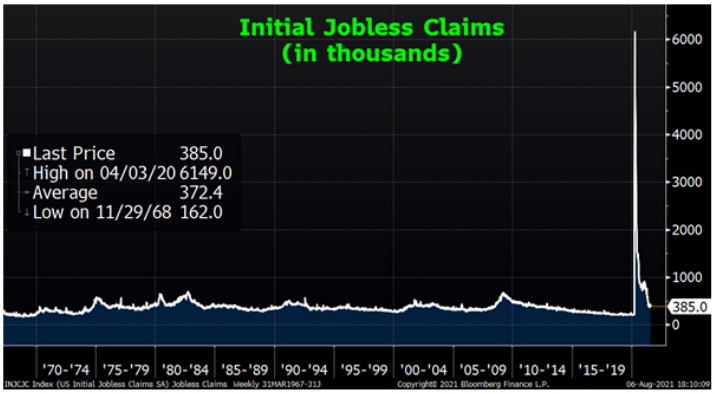


Economists were looking for a huge gain of 845,000 payrolls, so the increase of 943,000 in July was better than expected, though 240,000 of the jobs were government-related. The resurgent leisure and hospitality sector accounted for 380,000 of the increase, and employers are having to raise wages in order to fill positions as early retirements, lack of child care, virus fears and Uncle Sam's largesse have kept many folks from returning to work.

…and a big decline in the unemployment rate.

THE PRUDENT SPECULATOR

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



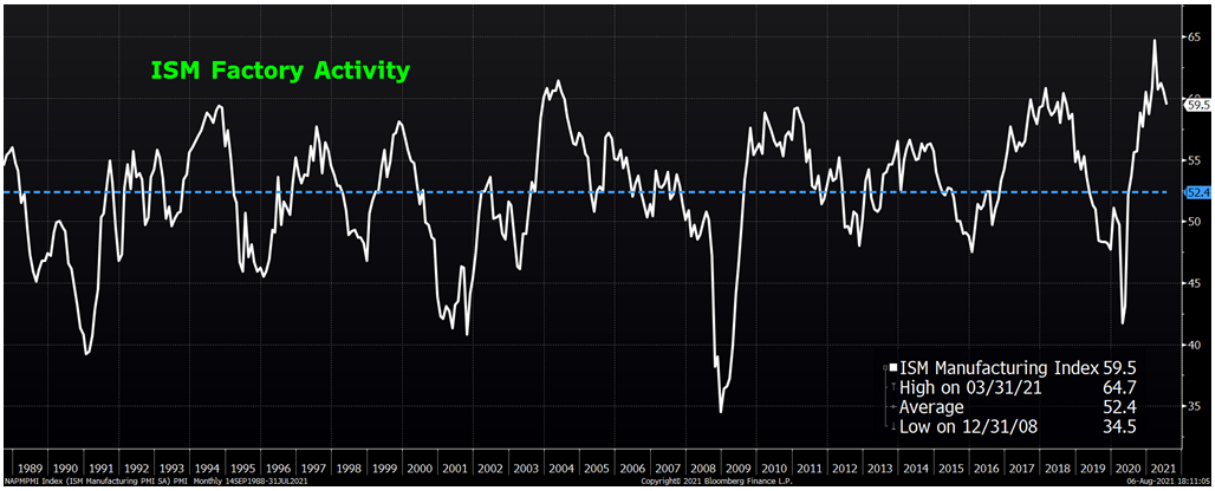
Thanks to a terrific number of new jobs created, the jobless rate for July improved dramatically, coming in at 5.4%, down from 5.9% the month prior, even as more folks were looking for work. 15 months ago, the unemployment rate hit a record 14.8%, so the labor situation has improved considerably, and first-time filings for unemployment benefits in the latest week dipped to 385,000, near a pandemic low.

True, the latest read on the state of the factory sector lagged expectations,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING INCHES DOWN: 4.7% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in at a weaker-than-expected 59.5 in July, down from a reading of 60.6 in June, but residing at a level well above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 4.7% increase in real gross domestic product (GDP) on an annualized basis."

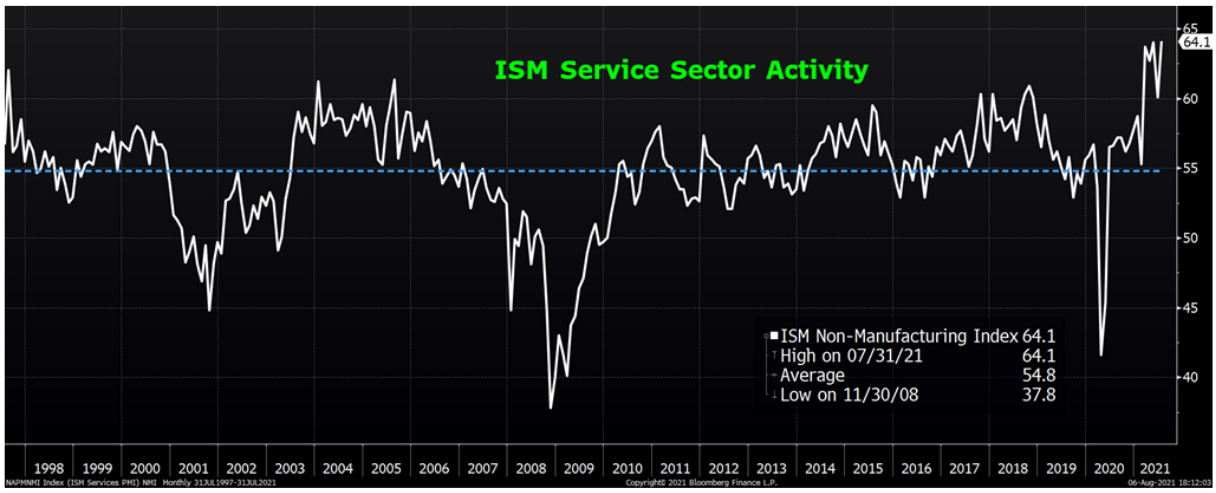


…but the outlook for the much-larger services sector blew away projections.

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING HITS RECORD: 5.2% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector jumped to a better-than-expected 64.1 in July, up from 60.1 in June. The figure is the best in the history of the index, and suggests strong growth in the non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 5.2% increase in real gross domestic product (GDP) on an annualized basis."



…supporting robust forecasts for GDP growth.

THE PRUDENT SPECULATOR

EXCELLENT U.S. GDP GROWTH ESTIMATED FOR Q3

While Q1 and Q2 2021 saw an acceleration of the economic rebound, the Atlanta Fed's current projection for Q3 2021 GDP growth on an annualized basis is a very-robust 6.0%.

Not surprisingly, the favorable economic statistics have led some market watchers to predict that the Federal Reserve will become less accommodative earlier than expected. Vice Chair Richard H. Clarida added fuel to that fire, stating this past Wednesday that he thinks the economy will be in good enough shape so that he and his Fed colleagues will start raising rates in 2023, which is what was suggested back in June via the FOMC Economic Projections.

FED: HUGE REBOUND IN '21 AND NEAR-ZERO INTEREST INTO '23

The Fed again increased its consensus projection for a massive U.S. economic recovery in 2021, taking its GDP forecast for real (inflation-adjusted) growth higher to 7.0%, up from a 6.5% estimate just three months ago. And, with little change in forecasts for growth and inflation in 2022 and 2023, Jerome H. Powell & Co. will likely remain very friendly, even if the Fed Funds rate eventually moves up a bit.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2021

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	7.0	3.3	2.4	1.8	6.8–7.3	2.8–3.8	2.0–2.5	1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7	1.6–2.2
March projection	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
Unemployment rate	4.5	3.8	3.5	4.0	4.4–4.8	3.5–4.0	3.2–3.8	3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9	3.5–4.5
March projection	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
PCE inflation	3.4	2.1	2.2	2.0	3.1–3.5	1.9–2.3	2.0–2.2	2.0	3.0–3.9	1.6–2.5	1.9–2.3	2.0
March projection	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
Core PCE inflation[4]	3.0	2.1	2.1		2.9–3.1	1.9–2.3	2.0–2.2		2.7–3.3	1.7–2.5	2.0–2.3	
March projection	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.6	2.5	0.1	0.1–0.4	0.1–1.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	2.0–3.0
March projection	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0

Source: Federal Reserve, June 16, 2021

Certainly, we would expect equity market volatility to increase should there be a change in Fed policy, but we offer the reminder that the so-called Taper Tantrum back in 2013 was hardly a negative for equity prices, provided investors stayed the course during the turbulence,…

TAPER TANTRUM: LONG-TERM TREASURIES, YES, BUT STOCKS, NOT SO MUCH

With folks trying to figure out when the Federal Reserve might become less accommodative, pundits have been offering reminders like, "In 2013, the Fed's previous taper announcement drove markets into a tantrum and led long-term debt to sell off." Memories become fuzzy with time and the yield on the 10-Year U.S. Treasury did soar from 1.63% on 5.22.13 to 3.02% on 12.31.13, due to fears about Fed tightening, but stocks performed very well in 2013 and 2014, even as the actual tapering of bond purchases began in January 2014. Indeed, **the Russell 3000 Value index returned 50%** and had only two downturns of 5% or greater during the period, just a third of the three-per-year average.

…while rising interest rates historically have been an obvious headwind for bonds, but not for stocks, especially those of the Value variety. This was vividly evident on Thursday and Friday last week when the S&P 500 Pure Value index gained 2.51% versus a two-day 0.04% loss for the S&P 500 Pure Growth index, in conjunction with a big jump in the benchmark 10-Year U.S. Treasury yield.

Rising Long-Term Government Rates - Annual Returns Review

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

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

Falling Long-Term Government Rates - Annual Returns Review

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

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

Incredibly, money continues to be shoveled into bond mutual and exchange traded funds,…

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	7/28/2021	7/21/2021	7/14/2021	7/7/2021	6/30/2021
Total Equity	6,992	1,173	7,593	-7,578	5,427
Domestic	2,237	-3,361	1,278	-10,372	998
World	4,756	4,534	6,315	2,795	4,430
Hybrid	380	1,148	402	1,064	750
Total Bond	12,880	2,711	5,883	12,747	17,754
Taxable	9,618	372	2,441	9,888	15,478
Municipal	3,262	2,339	3,442	2,859	2,276
Commodities	-77	-822	-592	-564	-132
Total	20,175	4,210	13,286	5,670	23,799

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

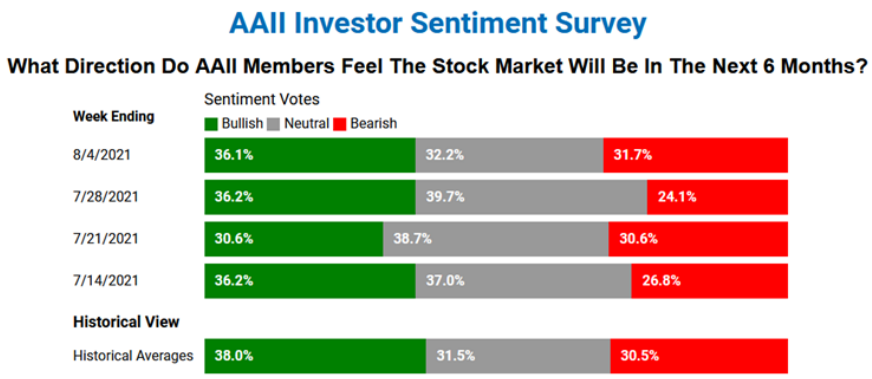
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	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	Jun-21	-4,088	56,804
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:	-723,227	1,955,676

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 at all-time highs, one wonders where stocks would be if fund folks actually liked them!

…and, surprising as it may seem, given the equity index record highs, we just don't see a lot of enthusiasm toward stocks from investors on Main Street,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BEARISHNESS JUMPS



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	903	0.27%	0.23%	1.27%	1.14%	3.68%	3.29%	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 1773 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%	6.46%	5.93%
5	3.0	8.0	192	0.04%	0.02%	0.65%	0.56%	2.45%	2.20%	4.72%	4.19%
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%	0.38%	0.29%	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%

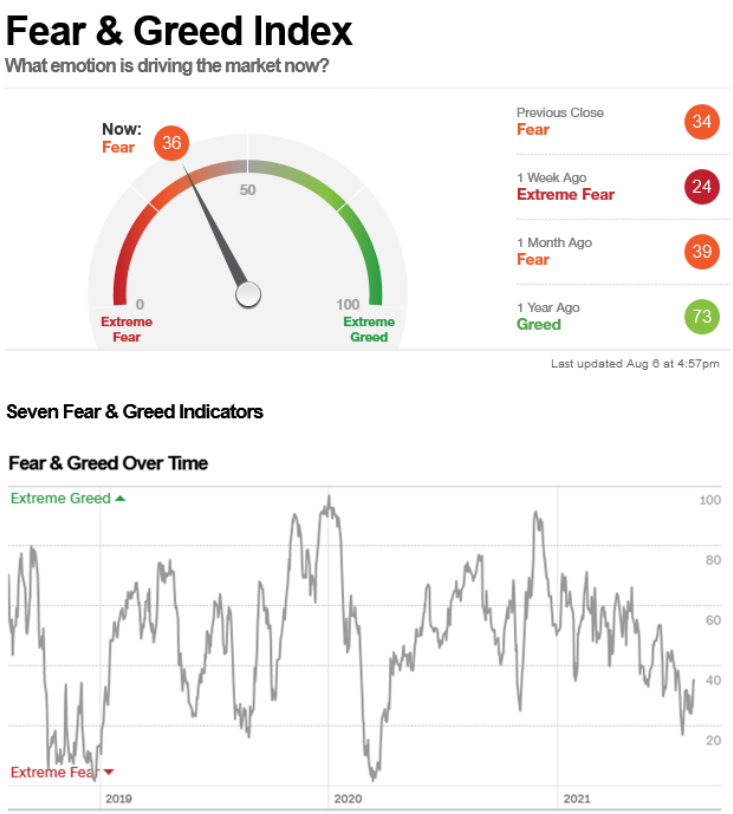
From 07.31.87 through 8.5.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the 7.6-point jump in the number of Bears in the latest AAII Sentiment Survey released on August 4, 2021, was a modestly positive sentiment sign, while the 4.4-point Bull-Bear spread was below average and in the 5th decile of the historical figures.

…while a real-time sentiment gauge is still showing Fear to be the prevalent emotion.

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…POINTING TO FEAR DESPITE RECORD HIGHS



There is still frothiness in richly valued and profitless stocks, while many argue that folks are too optimistic, but even with the S&P 500 at an all-time high, the *CNNMoney* Fear & Greed Index is tilted toward pessimism. Extreme Fear readings for Safe Haven Demand, Stock Price Breadth and Stock Price Strength, and Fear in Put and Call Options were offset only by Greed in Market Momentum and Junk Bond Demand.

Understanding that developments on the health front will be critical for near-term equity market performance, we remain optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	16.5	14.1	1.2	2.6	2.2
ValuePlus	17.5	14.2	1.6	2.5	2.0
Dividend Income	15.6	13.8	1.0	2.5	2.5
Focused Dividend Income	16.3	14.1	1.3	2.6	2.4
Focused ValuePlus	16.4	14.8	1.6	2.8	2.1
Small-Mid Dividend Value	13.9	12.5	0.8	1.7	2.2
Russell 3000	30.6	23.3	2.8	4.4	1.2
Russell 3000 Growth	43.0	32.9	5.0	13.0	0.7
Russell 3000 Value	23.3	17.7	1.9	2.6	1.9
Russell 1000	28.4	22.9	3.0	4.6	1.3
Russell 1000 Growth	39.9	31.9	5.5	14.0	0.7
Russell 1000 Value	21.6	17.6	2.0	2.6	1.9
S&P 500 Index	27.1	22.2	3.1	4.6	1.3
S&P 500 Growth Index	34.6	29.0	5.7	10.9	0.7
S&P 500 Value Index	21.7	17.5	2.0	2.8	2.0
S&P 500 Pure Value Index	13.2	10.7	0.8	1.3	2.4

As of 08.08.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

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.

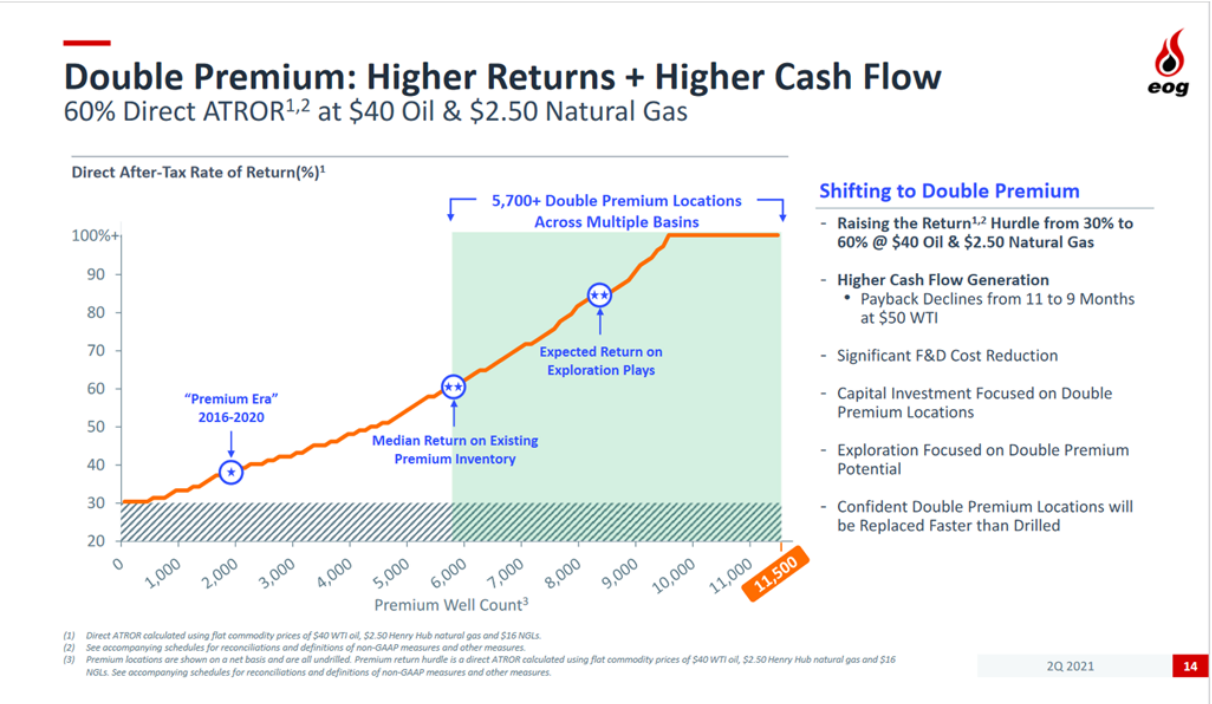
Despite reporting Q2 top- and bottom-line beats, shares of **EOG Resources** (EOG – $70.93) fell more than 2% last week. While the stock price is still up 44% so far in 2021, it has fallen 19% off the year highs in late June. EOG earned $1.73 per share in the quarter, better than the $1.55 analysts expected. Revenue for the quarter came in at $4.14 billion, versus the $4.04 billion that was projected. The quarter also saw the company generate $1 billion of free cash flow. Capital expenditures came in below the low end of the guidance range and the full-year well cost reduction target was increased from 5% to 7%. Total per-unit cash operating costs came in 3%

below guidance midpoint, and oil production was above the high end of the company's guidance range.

CEO Bill Thomas commented, "EOG is consistently delivering strong results. Our talented employees, supported by our unique culture, have risen to meet the double-premium investment standard in every aspect of the business. Outstanding operating execution, strong well productivity and lower well costs resulted in higher production and lower capital expenditures compared with our plan. We further lowered operating costs while our differentiated marketing strategy captured premium product prices. As a result, we generated a second consecutive quarter of record-level free cash flow. Our longstanding free cash flow priorities remain intact. We have already committed to return $1.5 billion of cash to shareholders in 2021 through regular and special dividends, including $820 million paid on July 30. Returning cash to shareholders remains a priority as we generate additional free cash flow during the second half of the year."

Mr. Thomas continued, "EOG's industry-leading execution extends to our environmental performance, where we are driving meaningful reductions in GHG and methane emissions intensity. We have almost completely eliminated routine flaring and continue to increase the percentage of recycled water used in our operations. Our entrepreneurial culture fosters new technology and innovations to further enhance our performance. Our successful closed-loop gas capture pilot is being expanded to additional locations. And we recently initiated a carbon capture and storage pilot project. Our goal remains to be among the lowest cost, highest return and lowest emissions producers and to play a significant role in the long-term future of energy."

He concluded, "Our outstanding second quarter results are a testament to EOG's special culture. EOG has never been in better shape and we are getting even better. With the momentum we are building from the shift to Double Premium, I am confident the company will continue to make significant improvements in the years ahead."



We have repeatedly warned in our commentary that the EOG ride could be quite bumpy, but we have been well rewarded thus far for our ownership. We continue to like that EOG has historically been one of a handful of shareholder-friendly oil and gas producers and think management's focus on capital returns is to be commended. Shares currently trade for 9 times the consensus NTM adjusted EPS estimate, while the regular quarterly dividend provides a 2.3% yield. We have raised our Target Price to $105.

Mid-continent refiner **HollyFrontier** (HFC – $29.02) released its Q2 financial results last week, in which it earned $0.87 cents per share (42% above the $0.61 analyst estimate). The news was overshadowed by Holly's announcement that it and its pipeline partner Holly Energy Partners (HEP) would be acquiring Sinclair Oil and Transportation Companies from the Sinclair Companies. The all-stock transaction has a value of $1.8 billion (based on HollyFrontier's closing stock price on July 30, 2021), and is expected to close at mid-2022. Existing Holly shareholders will own 73.25% of the combined entity, which will be known as HF Sinclair.

Sinclair comes with no debt, and management states that the deal diversifies and adds scale to HollyFrontier's portfolio, given Sinclair's integrated distribution network, renewable diesel business, and two complementary refineries in the Rocky Mountain region. In addition, HEP will acquire Sinclair's integrated crude and refined product pipeline assets (including 4.5 million

barrels of operating storage between 8 product terminals and 2 two crude terminals), as well as Sinclair's interest in 3 midstream joint ventures with additional pipeline assets. These assets will be supported by minimum volume commitments.

Given the significant activity from Holly over the past 6 to 12 months, including refinery turnaround transitions to renewable operations and a definitive agreement in place to acquire former Shell refining assets, our first instinct is that management may have bitten off more than it can chew. After all, downstream/marketing operations are new territories for Holly. But we do not deny that benefits from integration exist. As CEO Michael Jennings elaborated, "By adding a branded wholesale business, the combined company will have a significant base business and the opportunity to grow this iconic brand across a range of HF Sinclair products and geographies through a consistent sales channel. The Sinclair dinosaur known as Dino is one of the industry's most recognized symbols and will represent the brand for HF Sinclair. We're thrilled to bring onboard Sinclair's marketing team who will help us to manage and grow our footprint of over 300 distributors and 1,500 branded locations across 30 states with over 2 billion gallons of annual branded fuel sales. The marketing business provides significant renewable identification or RIN generation through Sinclair's integrated product distribution network. The addition of the branded marketing business also provides the consistent sales channel for produced fuels with stable margins as well as additional earnings from brand licensing and credit card programs."

We respect that there are benefits to using equity in such a deal, particularly as management has consistently prioritized a strong balance sheet, but question offering stock at current levels. Shares trade at virtually the same price they did a decade ago while the firm arguably boasts more earnings power given other bolt-on purchases over that time period. Of course, it was a decade ago when Holly Corp. merged with Frontier Oil Corp., and the firm has outperformed the S&P 500 Energy index by over 300 bps per annum over that time frame. For those invested in HFC for income, we note that the dividend is on pause until at least Q1 of 2022. For 2023 and beyond, management intends to implement a target payout ratio comprised both of dividends and share repurchase of 50% of adjusted net income. Meantime, earnings estimates are surely to be muddied with lots of previously unexpected capital spending and acquisition costs. So, for now, our Target Price for our current HFC position is $54.

General Motors (GM – $55.05) reported Q2 results last week that saw the top line come in above expectations, while the bottom line trailed. Shares fell more than 3% on the week. Revenue for the period came in at $34.2 billion, versus the consensus analyst estimate of $31.7 billion. Adjusted EPS for Q2 was $1.97, 5% short of the average analyst forecast of $2.08. GM raised 2021 adjusted EPS guidance to a range of $5.40 to $6.40 from a range of $4.50 to $5.25. The increased guidance was viewed as disappointing to some because the consensus analyst EPS estimate prior to the release had been $6.90.

CEO Mary Barra commented, "Everyone (at GM) continues to demonstrate remarkable resiliency and adaptability in a rapidly changing environment. In addition, our ROIC-adjusted of 27.3% in the quarter significantly exceeded our target, this underlines how our strong returns enable us to reinvest in the future of this business. The reinvestment includes accelerated investments in our electric and autonomous strategy to build a future that is better for our customers and better for the environment…All-electric is an important point of distinction

because of the performance, range, flexibility and scalability of our Ultium and Hydrotec platforms, including the work, we're doing to continually drive cost reduction, we don't need to depend on partial solutions like hybrids and electrified ICE vehicles, instead, we're primarily focused on investments that achieved the end solution of zero emissions more quickly."

Addressing the recent negative headlines related to the Bolt, Ms. Barra stated, "Across the company, we have made both product and workplace safety everyone's responsibility. Our focus is on prevention, but also moving with a sense of urgency when problems do arise. Concerning the Bolt, when we learned of the potential of two new battery fibers that were part of our previous recall population, we acted quickly. We did an investigation and our engineering analysis identified two rare manufacturing defects in some cells manufactured by your supplier in the '17 to '19 time frame. So we instituted a second recall with the overriding priority of doing the right thing. Because cells for 2020 and later vehicles were built using improved manufacturing processes, the recall does not impact newer Bolt EVs or EUVs. And since that recall we have worked with our supplier and partner to make further process improvements. Just as important, the recall doesn't impact the Ultium platform. It is a different battery system and our joint venture plants that manufacturing Ultium Cells will follow rigorous GM quality processes."

Finally, in regard to the ongoing chip shortage, she concluded, "As for semiconductors, the situation does remain fluid and the supply chain continues to be impacted by advance like what is happening right now with the COVID spike in Malaysia. Well, we informed our employees yesterday, that some truck production will be impacted next week, even as we resume production at some crossover plants, we remain confident in our team's ability to continue to find creative solutions that minimize the impact and our highest demand and capacity constrained vehicles, including full size trucks and SUVs."

GM – LEGACY AUTO BUSINESS FUELING LONG-TERM GROWTH INITIATIVES

Summary

Q2 2021 RESULTS

- Generating consistently strong earnings despite industry-wide challenges, including record EBIT-adjusted of $4.1 billion in the second quarter, and $8.5 billion in the first half
- Results highlight the strength of our full-size pickup and full-size SUV franchises, which we plan to leverage as we roll out our EV portfolio
- Results better than originally expected due to strong pricing and demand, record GM Financial results and improved near-term production from the pull forward of semiconductors from the third quarter

WHAT'S TO COME

- Focus on profitable growth opportunities and new revenue streams
- Developing a full EV portfolio that doesn't depend on partial solutions like hybrids and "electrified" ICE vehicles
- Prioritizing speed to market as we launch more than 30 new EVs in North America and China by 2025
- Our upcoming EV launches including our GMC HUMMER EV and Cadillac LYRIQ are on track, and the construction in Lordstown, Factory ZERO, and Spring Hill is progressing with no delays
- October 6th-7th: plan to share additional insight into our EV & AV strategy and growth opportunities, including software and services and product and technology demonstrations

gm

22

We continue to like GM and believe that the company's move away from sedans and towards trucks and SUVs was important and supplies the huge amounts of cash flow required to launch more than 30 EVs in the very near term. The pivot to EVs has been impressively swift across the entire industry (after a slow start) and we think it'll prove valuable for a multitude of reasons. GM will continue to feel the sting of the semiconductor shortage, but we think the company is doing a solid job given the uncontrollable situation. The valuation for GM isn't as cheap as it once was, but is still only 9.3 times the consensus NTM adjusted EPS forecast. Our Target Price for GM is presently $83.

Shares of **Amgen** (AMGN – $230.15) plunged nearly 5% on Wednesday, after the biotech giant reported that it earned $4.38 per share in Q2 (versus the $4.09 estimate). Global product sales increased 3% for the period versus the same quarter a year ago, driven by double-digit volume growth across multiple products. Sales of the firm's leading drug Enbrel declined by 8% year-over-year, due to unfavorable changes in estimated sales deductions and a lower net selling price, but the second-best seller, Prolia, grew 24% year-over-year and now represents 11% of overall product sales.

Amgen CEO Robert Bradway commented, "We achieved solid, volume-driven growth in the quarter as our business recovered from the effects of the pandemic. As we look to the balance of

the year, we are excited to be launching LUMAKRAS™, a first-in-class lung cancer treatment, and advancing a robust pipeline of potential new medicines to meet the demands of patients around the world." Management's full-year outlook remains the same with $25.8 billion to $26.6 billion of sales and EPS in the range of $16.00 to $17.00 expected for the full year. Management also guided for a target of share repurchases between $3 billion and $5 billion.

EVP of Research and Development David Reese commented on R&D efforts, "We made several important advances in R&D last quarter, and I will begin with our acquisition of Teneobio, which will strengthen Amgen's leadership in developing engineered protein-based medicines to treat patients with serious illnesses. There are 3 important components to the acquisition. First, Teneobio's core antibody technology will enable the development of multispecific biologics directed against targets and a wide range of diseases across our key therapeutic areas. Teneobio's antibody platform offers capabilities complementary to our XenoMouse. It is genetically modified to express human IgG molecules comprising only a heavy chain. A small single chain antigen binding VH domains from these molecules are soluble and stable and can be easily strung together like beads on a string to generate multispecific molecules. In addition, Teneobio also brings a novel lower affinity CD3 engaging technology that complements our BiTE platform. The availability of a second CD3 engager will allow us to broaden our bispecifics capabilities and enable customization of the T-cell engaging domain, depending on the disease and target. Finally, we are acquiring clinical and preclinical oncology programs directed against high-value targets of interest, which we specifically selected based on our own discovery efforts and target validation. These include a Phase I bispecific antibody for prostate cancer that complements acapatamab, AMG 160, also targeting PSMA, and AMG 509 targeting STEAP1, which was recently granted fast-track designation by the FDA."

Competition from biosimilars against Amgen's biologic portfolio is expected to intensify in the coming years. Nevertheless, the firm's sound balance sheet and significant cash flow generation allow it to invest in defending its position through R&D or via acquisitions. Amgen also continues to prioritize capital returns: management repurchased 6.5 million shares in Q2, bringing the year-to-date number to 10.2 million at about $252 per share. Shares have consolidated over the past year and change hands at a very reasonable forward P/E multiple below 13. With the dividend yield now at 3.1% and the company boasting a strong pipeline of new therapeutics, our Target Price for AMGN now stands at $287.

Shares of **Cardinal Health** (CAH – $50.99) were crushed on Thursday, dropping 14% following the firm's release of fiscal Q4 financial results. The drug distribution concern earned $0.77 in the quarter (36% lower than the analyst estimate), as elevated inventory invoked a $197 million reserve charge to operating income. Management states that the stockpile is a preventative measure to avoid shortages of Personal Protective Equipment (PPE) in case there is another resurgence of the COVID-19 virus. Operating profit in the Pharmaceutical segment was affected by distribution contract renewals as margins declined versus the prior year even as revenue grew 15% to $35.1 billion. Revenue from Cardinal's much smaller Medical segment grew by 23% year-over-year to $4.2 billion, although the inventory charge offset for PPE resulted in a $63 million loss. Management has adjusted its EPS guidance to a range of $5.60 to $5.90 for fiscal '22 compared to the $5.90 to $6.05 range it offered last May.

FY22 financial expectations

	FY22 outlook	FY21 actual
Non-GAAP EPS	$5.60 - $5.90	$5.57
Interest and other	$150M - $180M	$133M
Non-GAAP ETR	23.5% - 25.5%	22.8%
Diluted weighted average shares outstanding	287M - 292M	294M
Capital expenditures	$400M - $450M	$400M

The company does not provide forward-looking expectations on a GAAP basis as certain financial information, the probable significance of which cannot be determined, is not available and cannot be reasonably estimated. See "use of non-GAAP measures" in the financial appendix at the end of this presentation for additional explanation.

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CardinalHealth

CEO Michael Kaufmann commented, "We're disappointed with our fourth quarter results. Throughout the past year we have been taking action to drive performance, and we will continue to move forward with urgency. For example, we divested the Cordis business, extended our Red Oak Sourcing agreement with CVS Health, identified $250 million of additional cost savings opportunities and made important leadership changes. With the actions we've taken to date and our plans for fiscal year 2022, we feel confident in our strategy, and are encouraged by the tailwinds behind our growth areas and strong cash flow generation."

CFO Jason Hollar added, "Across the organization, we continue to place a high priority on cash flow generation as well as allocating capital in a balanced, disciplined and shareholder-friendly manner. Our strong cash flow and improving capital position will enable our capital allocation priorities, support our company's obligations and provide increased flexibility and the ability to be more opportunistic in our capital deployment. Along those lines, we anticipate deploying the Cordis proceeds through a combination of share repurchases and debt paydown, which is expected to offset the earnings dilution on a pro forma basis. We expect share repurchases in the range of $500 million to $1 billion in fiscal '22. In addition, we expect total debt paydown of approximately $850 million, reflecting the completion of the remaining June 2022 debt tower at or before maturity."

Like much of the economy, Cardinal says that it is coping with an "elongated supply chain," driving elevated transportation costs and labor inflation. Nevertheless, we think many of these issues that linger on highlight the importance of healthcare distribution. Despite razor-thin margins in its pharmaceutical segment, CAH continues to generate strong free cash flow, which we believe is supported by demographic trends in the U.S. as the population continues to age and requires greater health care usage. CAH shares trade for less than 9 times the mid-point of the forward guidance management offered, with EPS expected to show better growth in fiscal '23 and fiscal '24. While our Target Price has been trimmed to $81, we continue to like the very inexpensive valuation and the rich 3.9% dividend yield.

Orthopedic device and equipment maker **Zimmer Biomet Holdings** (ZBH – $149.00) reported that it earned $1.90 in Q2, in-line with analyst estimates. The performance was a massive rebound against the pandemic-affected period a year ago (as elective procedures came to a halt), with sales breaching 2019 levels by 3% across segments to just over $2 billion. Zimmer's S.E.T category (sports medicine, surgical, extremities and trauma products) led the way, growing 39% and 30% over the prior year and 2019 figures, respectively. Despite the proliferation of vaccines, there remains a significant backlog for orthopedics given the massive deferral of elective procedures over the past year. But the situation has also placed a significant burden on clinicians to meet this demand, even as the pandemic lingers. Nonetheless, shares were greeted with investor dissatisfaction, sinking nearly 9% last week.

Management narrowed its guidance range for the top- and bottom-lines although the midpoints for both remained the same. CFO Suketu P. Upadhyay commented, "Our adjusted diluted earnings per share is now in the range of $7.65 to $7.95, and we have narrowed our adjusted operating margin projection to be 26.5% to 27% for the full year. Our updated EPS guidance reflects our performance to date, our expectation of improved growth in the second half and that discretionary operating expenses remained consistent with Q2 through the balance of the year. While operating margins are expected to decline sequentially in the third quarter, in line with lower sales revenue and steady investment levels versus the second quarter, we expect overall second half operating margins to be stronger than first half operating margins. Our adjusted tax rate projection is unchanged at 16% to 16.5% for the full year. And finally, our free cash flow estimates remain in the range of $900 million to $1.1 billion. We will continue to update you on market dynamics and financial expectations as we move through the remainder of the year. To summarize, our performance in Q2 was slightly better than our expectations that we have communicated to you through the second quarter. While we anticipate some ongoing COVID pressure, we have more confidence in the momentum of the recovery and our ability to execute against that backdrop."

CEO Bryan C. Hanson said of the company's long-term trajectory, "We are focused on evolving ZB from what I would define as a metal and plastic provider of implants into a leading med tech innovator. And we have a lot of shots on goal across a number of programs to do this, including a number of robotics launches over the near term, smart implants that we have today, but also the technology road map that we have in smart implants. New functionality with mymobility and really just the broader ZBEdge ecosystem of those connected technologies that are going to help us drive mix benefit and share of wallet benefit, but also competitive conversions. And I've mentioned before, more than 70% of our new product development investment is directed

towards ZBEdge and those connected technologies inside of ZBEdge. And our exclusive partnership with Apple continues to be productive and collaborative. And we forged several other tech alliances that we know are going to drive future innovation that will benefit patients. And I believe this fundamental shift is coming for ZB and for our core markets with technology advancements, potentially changing the care paradigm for patients in the future, and that's really what our focus is. So, the momentum is real on the innovation front. And we think it will ultimately allow us to drive long-term growth that is very attractive to us and to you. And most importantly, it also gives ZB the chance to really change the lives of patients around the world."

Like the other handful of major implant providers, the last year has been undeniably tough for Zimmer. But expenses have remained under control, even while the company has continued to invest around 5% of its revenue on research and development. We expect the momentum going into 2020 for surgical robotics will eventually return to benefit the firm's Rosa platform…and implant sales as well given its role as major supplier of the implants used in surgeries. The pending spinoff of dental and spinal businesses will allow ZBH to elevate its focus to that needed for the continued development of some its new tech-forward products like ZBEdge, a suite of integrated digital and robotic technologies. Consolidating in price over the past two years, we find shares attractive, trading at a discount of more than 50% to peers on a P/E basis, with analysts estimating $9.60 of EPS in 2023. Our Target Price for ZBH now resides at $187.

Ever-volatile shares of **Goodyear Tire** (GT – $16.26) rebounded more than 6% on Friday as the tire concern announced EPS of $0.32 (versus the $0.19 est.) in Q2. The reported period was the first since the firm's merger with Cooper Tire (in early June), which contributed $34 million of operating income, but this was more than offset by an inventory adjustment as well as other less-impactful merger related costs. Goodyear's Americas segment (the company's largest geography) turned in a 10% operating margin on a near doubling of sales from the prior-year quarter, while EMEA and Asia Pacific segments also returned to profitability. Management was able to stay ahead of raw material cost inflation through price increases implemented throughout the past year.

Touching on a variety of considerations front and center for Goodyear, CFO Darren Wells commented, "Our results in the second quarter were again a reflection of strong performance by our team and their focus on continuing our recovery of market share, improving our manufacturing cost and managing for cash. And pursuing all of these while also delivering strong price/mix to address rising raw material costs and inflation in many other cost categories. These results also illustrate the momentum built up over the last year across our consumer replacement, OE and commercial truck businesses. And as of June 7th, we had the momentum that the Cooper team has developed to the overall equation, creating even more opportunity going forward. We're excited to have completed the combination so quickly, giving our teams a chance to work more closely together and accelerating the opportunity to deliver the full benefits of the transaction."

He continued, "While our team is delivering, we have to acknowledge the added volatility we've experienced in our end markets during the second quarter. We saw lower OE production than we anticipated, a problem that seems likely to persist longer than originally thought. And we saw increased disruptions in our emerging markets businesses, some COVID-related, particularly in

Asian markets, and some a result of social unrest, with significant impact on our South Africa and Colombia manufacturing facilities. And still others were reflecting the difficulty of shipping products to markets like the Middle East, where we don't have a manufacturing presence. Overall, this slowed down the global volume recovery temporarily, but the pent-up demand in these markets will be a source of further growth over the coming months. Operationally, our team has done a great job keeping our factories fully supplied. So, while we continue to see escalation in raw material prices, we have seen no impact of material supply on our production. Consistent production has been critical in serving markets, including Latin America, Europe and China and particularly the U.S., where replacement tire demand remains very strong. So, as we enter the second half of the year, we're feeling very good about the industry outlook and our ability to outperform the industry while continuing to see our profitability trend toward target levels."

We have had plenty of debate internally about the continued residency of Goodyear in our portfolios, given that the stock has been a disappointment over the years, while there appear to be no signs of a reinstatement of the dividend. On the other hand, GT CEO Richard Kramer, while prodded by an analyst, suggested that there are more than a few tailwinds at present for the company,…

THE PRUDENT SPECULATOR

GT – EARNINGS CALL Q&A FOOD FOR THOUGHT: CEO RICHARD KRAMER

Q - I wanted to ask how you're feeling about your relative pricing power and ability to, therefore, offset commodity cost headwinds maybe in the context of a few factors that I thought might be important. But of course, any other factors you think might be important? Maybe starting with, where we are at with regard to consumers' average tread depth on their tires. I think that you likely have some good insight into that, given the large number of retail stores that you operate. So, what are you seeing there as miles-driven recover? And then, if -- maybe replacing tires is something that Americans deferred earlier during the pandemic, but maybe now need to catch up on making those purchases somewhat less discretionary. Another factor I thought to ask on, if it's important is all of the monthly child, tax credits, and other transfer payments that many Americans are now receiving, whether that could help? And then, lastly, the increased equity that consumers have in their used vehicles, right? So, the Manheim Index is up a little bit today, but if used cars are worth 35% more than before the pandemic does that help rationalize purchasing a new set of tires or maybe paying a little bit more for those tires if the vehicle itself is so much more valuable. How do you think these or other factors will play into your ability to implement and to stick to the price increases that are required to offset raw material inflation?

A - There's a lot there, but I think all really headed in the same direction. And I can start by saying everything that you're talking about I think is manifesting itself in a positive way in the market right now. Demand is good, particularly in the US sell out is good. And we think that's something that's going to continue on going forward. If you sort of peel back what you said, in terms of tread depth, we're not seeing anything really unusual in terms of more worn-out tires, it's been pretty consistent. And I can tell you, that's really been pretty normal. The last time we saw really, really worn-out tires coming in was in the great recession. Since then, it's been fairly consistent. So, I wouldn't say that, that alone is driving anything. Having said that, your comment about child credit or other government programs putting money in individuals accounts, I'll tell you, we always see correlations between things like tax returns or tax refunds coming back into peoples account, and we see that spending manifesting itself out in our channels a number of them and particularly across some of the mass-market, mass merchandisers as well that we deal with. So, there's definitely a correlation with that going forward.

And from a used-tire, excuse me, used-vehicle perspective and the increased value in used vehicles. I would also tell you that, yes, absolutely, I think, as people keep their vehicles longer, the importance of tire from a safety perspective and the fact that they're keeping it long enough, not turning it back, not lease -- not sending it back on lease or whatever it might be. Also plays in people's minds to make sure they have a good set of tires on their vehicle. And again, that's playing out for all our channels. Whether it's through our own retail stores, through some of our franchisees, through some of the large regional retailers, as well as some of the mass channels. I think we're seeing that benefit of used vehicles staying on the road, a bit longer. And now actually being worth a little bit more since you can't replace it with a new car. So, all those are trends moving in the right direction.

Now, taking a step back on price. I will tell you during the second quarter, we again, saw a net recovery of price of raw -- over raw materials. And that's a continuing trend that we've seen now for multiple quarters, it's a good trend that's going forward. If I break it down for you a little bit and we'll start in the US and consumer. As you might imagine, we monitor what's happening in the market -- in the market as well as for our competitors. In the quarter, we certainly saw the replacement industry pricing moved higher. And as we do or monitor key competitors, key consumer tire producers out there, I would tell you, we saw at least two price increases since November. Sometimes three and those in the range of about 5% to 8%.

And for Goodyear, earlier this week, we just announced in our consumer replacement business and up to 8% price increase effective September 1st on both the Goodyear and the Cooper brand. And remember, for us, that's about our fourth one recently. We did -- you may recall, we did up to five going back to December 1st and we did up to eight both effective April 1st, as well as June 1st. And if I peel Cooper back a little bit as well, they've taken price increases about up to 8%, one in January, one in May, and one in July. And if I go to the commercial markets in the US, very similar, if we look at the commercial truck tire producers, we've seen a significant increase as well in that range of 5% to 8%. From a Goodyear perspective, we've gone effective price increases up to 6% on November 1, as well as April 1, and then up to 12% this past July 1. So, I say that that's reflective of what's happening out in the marketplace in terms of our input costs and the demand versus supply dynamic.

In Europe, I'd say, again we are seeing price increases. Most tire companies announced prices, excuse me, now ahead of the winter season. We have a summer-winter market there as you know. So, we did see that and those announcements are really similar to the price actions that were taken ahead of the summer and all-season sell-in at the end of, around Q1. So that's a positive trend that we're seeing. From a Goodyear perspective, we implemented a price increase up to 4% to 5% on winter and an additional 2% to 3% on summer and all-season at the end of the first quarter. So, good trends there as well, and also, we're seeing the same thing happening in the truck markets there.

So, if you add all that up, I would say, certainly that the pricing actions that we're taking in recent months, clearly better position us to handle what we see is, as Darren mentioned, those second half higher raw material cost and that cost inflation is going to hit us. So, all-in-all, very constructive environment out there.

…and Mr. Wells added, "The other thing that I think is ultimately a real positive here and it does get straight to the question of OE economics, and that is the economics of electric vehicles. And we — a couple — it's now a couple of years ago that we first talked about a couple of the key factors that are making this, as Rich put it, such a great time to be a technology leader in the tire industry, and that is with the electric vehicle trends. Our win rate on electric vehicle fitments is significantly higher than it has been, in general, historically. So I think we — when we talked about it two years ago, we said, we were getting — we were winning only about two-thirds of the fitments that we were bidding on for electric vehicles. And as you might expect that's drop down a bit. But our most recent read is that we're still winning volume of about 60% of the fitments that we're bidding on. And which is a real testament to how — good job our teams have been doing meeting the performance in the tech specs, for the increased weight, the higher torque, vehicle dynamics. So that continues to be a real benefit."

We have long been fans of Cooper Tire, having enjoyed terrific returns on the stock the couple of times that we owned, so we like the competitive proposition the merger offers, especially as we have appreciated Cooper's operating capability and conservative fiscal posture. We acknowledge that it may take at least a few quarters for the benefits the merger to flow through, but our optimistic case is one in which Cooper adds stability to operating results in addition to increased scale and cost savings. Despite the stock's recent bounce, the price remains 20% below the 52-week high seen in June. Our Target Price for GT now resides at $24.

French life insurance company **AXA SA** (AXAHY – $27.90) posted adjusted EPS of $1.80 for the first half of 2020, 16% ahead of analyst estimates. Shares gained 7.4% last week on the news, thanks in part to a positive contribution from the XL Group unit, which the insurer acquired in 2018. In Europe, AXA had growth in all units, due to easy comps and disciplined underwriting.

CEO Thomas Buberl commented, "[Overall AXA had] a very strong set of results, showing that our strategy of moving towards technical risk, of simplifying AXA and of focusing AXA on the core countries really is showing its fruit, again plus 7% on the revenue, a very strong balance sheet with 212% Solvency II ratio, well above the aim of 100 — or the objective of 190% that we've got, EUR 3.6 billion of underlying earnings, which is plus 12% ex COVID, leading to an underlying earnings per share growth of 7%, well at the upper end of our range of 3% to 7%. And certainly, a key driver of these results, the recovery of AXA XL's earnings, strong underwriting discipline, benefiting very much from the strong pricing cycle. And you've also seen that these results are all based on recurring elements."

Deputy CEO Frederic de Courtois added, "AXA has a good governance with a constructive dialogue between the Board and the management team. AXA has a strong management team. We also have a high-quality business mix. And the shift towards P&C, Health & Protection has been largely executed. If you look at these three business lines, they represent more than 80% of revenues and 80% of earnings…All of [the diversified business lines have] a positive impact on AXA IM earnings. And this better business mix leads to margin expansion and revenues were up by 17%. It also leads to an improved cost/income ratio to 67%, decreasing by 3.6 points in H1 2021 from cost discipline and higher revenues. Consequently, underlying earnings in AXA IM are up 32% to EUR 170 million. This is very much driven by the growth and the quality and the performance of all our businesses and especially our alternative franchise."

AXA shares have had a total return of 24% this year after enduring a relatively tough 2020. We were pleased to see the XL unit adding to earnings, especially as the integration hit a few bumps even before the pandemic, and we like that AXA is taking a proactive approach to the global warming potential – not for the political points, but for the impact to the company's insurance policies and payouts. AXA is a lead firm in the "Net-Zero Insurance Alliance." With the company hitting its operational stride and sporting an inexpensive valuation, including a forward P/E ratio under 9, we like AXAHY and our Target Price is $39.

Multinational financial services titan **Allianz SE** (ALIZY – $23.17) posted adjusted EPS of $0.52 in Q2 2021, higher than the $0.44 estimate and 33% above the figure earned in Q2 2020. The Property-Casualty business saw revenue grow 11% over the comparable period in 2020, but operating profit jumped 19%. The Life/Health businesses enjoyed a 17% increase in revenue and a 29% boost in operating profit, while Asset Management increased 16% on the top line and 29% on the bottom line.

CEO Oliver Bate Mr. Bate elaborated on the quarter, "Demand for our products, if you've seen, and services, gross income, profit flow, cash flow are on the rise everywhere. And I think that's very, very important to understand as is customer and employee satisfaction, very important. And as you may remember, November 2018, we said we're not just targeting financial outcomes, they are the result of our unwavering focus on our customers and employees, their needs and their ability to deliver. Now the last 18 months have been incredibly tough period for our customers, you all, you're also customers, and our employees, and throughout, we have tried to dedicate ourselves to your success and your well-being. And let me just give you a couple of examples. In the Property Casualty insurance, we have been really, really, really hit as an industry with substantial natural catastrophes, less individual, very large ones like we had them a few years ago, but now what we're seeing out of climate change, the number and severity are increasing across the board. Second, the demand for our Life and Health product is extremely strong, dynamic. Revenue growth is seen everywhere and the margins are great. If you had asked me 3 years ago, can we really, given the interest rates that we are operating at today, not the one we are envisioning in November of 2018, get the new business margin above 3%. That is coming out of really new products that are protection-oriented and they have the right balance between what customers need and want and get us benefits and the returns for shareholders, I would have found that a tall order. Today is the reality, even in markets that are structurally challenged, like, for example, France, we've been able to innovate and come up with products that are outstanding in demand and in margin."

All would have been fine, except that Allianz also disclosed last week an investigation by the U.S. Department of Justice. Several large investors in one of the firm's more esoteric strategies have complained about its performance as markets drew down significantly in March 2020. Regarding this litigation related to the Structured Alpha fund, Mr. Bate commented, "Now we also want to say that what has happened in the Structured Alpha sphere is no indication of the performance, the ethics or anything that happens at Allianz Global Investors. It's a very smart part — a very specialized part of what Allianz Global Investors does. And they have made enormous programs since the fall and winter of 2019 when we decided together with our Board here that we want to overhaul the structure, organization and leadership team of Allianz Global Investors. The success has been extremely strong and that starts with investment performance that is now so much better than it was — what it was in prior years; 77% now outperform in terms of 1-year views, 69% in 3 years, 48% of the mutual funds are now in the top decile of the 3-year Morningstar peer ranking, numbers that we hadn't seen for a long time before. From that flowed much better net inflows, and from those we have seen very strong financial results. You see that — saw that this quarter, and we believe it's going to continue into the future."

While customers of Structured Alpha were sophisticated investors, who should have understood the risks, Allianz has indicated that there could be a material charge that will hit the income statement down the road. To counter the bad news, and to take advantage of the pummeling that

the stock took on the Justice Department news, management launched a new 750 million euro stock buyback. What's more, the company said that it sees full-year operating profit in the upper half of its 11 billion euro to 13 billion euro range.

We have been pleased to see the company navigate the negative-to-microscopic global yield environment better than some of its peers. Of course, it certainly helps to have asset managers, including bond manager PIMCO, to diversify the income stream, while management has been diligent in improving operating ratios and minimizing losses. Shares continue to look attractive, trading for less than 10 times earnings, while boasting a net dividend yield of 3.5%. Our Target Price now stands at $34.

Following the recent trim of our holdings of **Eaton Corp PLC** (ETN – $162.89) at all-time highs, shares of the industrial conglomerate continued to climb on the back of a terrific Q2 financial release. The Ireland-domiciled company posted EPS of $1.72 in the period, 10% better than the consensus analyst estimate. Revenue came in at $5.22 billion, versus the consensus forecast of $5.02 billion. Eaton reported almost 44% Y-o-Y order growth in its Electrical segments (65% of revenue). Investors have been skeptical about the commercial construction recovery, but orders also grew at a similar pace. Management noted that its small and large commercial project pipeline was up strongly Y-o-Y and is "optimistic" for the back half of the year and next year growth. Even its oil & gas business showed a number of green shoots.

CEO Craig Arnold commented, "Building on the momentum from the first quarter, we achieved strong performance in the second quarter. We delivered record second quarter adjusted earnings per share and segment margins, and organic sales were slightly above the midpoint of our guidance range despite supply chain constraints impacting many of our businesses. We are pleased with how well our businesses are executing in this environment….Driven by strong second quarter performance and anticipated higher organic sales for the remainder of the year, we now expect 2021 adjusted earnings per share to be between $6.58 and $6.88, up 37% at the midpoint over 2020. Additionally, we expect 2021 full year adjusted operating cash flow to be between $2.6 billion and $2.8 billion, up $200 million at the midpoint over our previous guidance. Finally, for the third quarter of 2021, we anticipate adjusted earnings per share to be between $1.72 and $1.82."

As we wrote a few weeks ago, shares certainly aren't cheap, but we do not think the multiple is overly excessive given that we appreciate the company's shift in recent years to migrate away from legacy segments and toward highly differentiated end markets exposed to tailwinds like the acceleration in data consumption and the production of electric vehicles. Prime examples are purchases of Cobham Mission Systems (a provider of mission critical aircraft equipment) and Tripp Lite, which expands Eaton's data center exposure, using proceeds from the sale of its lighting and hydraulics businesses.

Additionally, we note that the benefits from U.S. stimulus and potential infrastructure bills have yet to show up meaningfully in orders. We also see Eaton as a beneficiary of re-shoring, higher manufacturing CapEx and a multi-year commercial aviation recovery. Given this new info, and the potential tailwinds, we have moved the Target Price for our remaining ETN shares up to $172.

Despite turning in a solid Q2, shares of **Pinnacle West Capital** (PNW- $80.34) fell last week almost 4% on the heels of some analyst downgrades. Given our long-term time frame, we aren't on the same page as those that made short-term rating decisions. We understand and agree that the utility has near-term regulatory risks (around potential rate increases), with their relationship strained because of past campaign contributions. However, for the last quarter, PNW reported revenue of $1.0 billion, versus the consensus estimate of $948 million. Adjusted EPS for the period was $1.91, more than 15% above the analyst average outlook of $1.65.

Increased retail sales and strong customer growth of 2.3% were the primary drivers in the quarter-over-quarter improvement, contributing to a 7.6% increase in operating revenue. Record-setting heat during the month of June also contributed to the company's bottom line, helping offset higher operations and maintenance expenses, an increase in depreciation expense and higher income taxes in the quarter.

"Our operating and financial performance in the second quarter remained strong," said CEO Jeff Guldner. "Combined with robust growth and an economy that is bouncing back from the worst of the COVID-19 pandemic, more customers used more energy this past quarter to cool their businesses and homes than a year ago."

THE PRUDENT SPECULATOR

PNW – ARIZONA/PHOENIX SHOULD CONTINUE TO SHOW HANDSOME GROWTH

Economic Development

Future Expansions
Taiwan Semiconductor broke ground in 2021 and is expected to be operational by 2024.
MLily selected Goodyear for their second U.S. factory. The nearly 650,000 square-foot facility is expected to add 424 new jobs and $33M in capital investment.
UACJ Automotive Whitehall Industries selected Flagstaff for their fourth production plant. The planned $60M investment is expected to create an estimated 350 jobs.

Arizona expected to add nearly 550,000 jobs between 2019 and 2029[1]

Phoenix #1 among U.S. metros for new residents added in 2020[2]

Phoenix's metro ranked 7th in the nation among large cities for its new business formation rate[3]

Phoenix metro ranked second in the nation for expected industrial space growth in 2021[4]

[1] Arizona Office of Economic Opportunity.
[2] Redfin. February 4, 2021
[3] Phoenix Business Journal. March 3, 2021
[4] Phoenix Business Journal. April 14, 2021

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PINNACLE WEST CAPITAL CORPORATION

We continue to think PNW ought to benefit from Arizona's population growth that remains above the U.S. average, and from opportunities to invest in the growth of renewable energy. We also note that a couple of the world's largest semiconductor companies (TSMC and Intel) are both building Arizona factories in the next few years. Pinnacle has earned an average return on equity of 10% over the past decade and sports a rich dividend yield of 4.1%. Our Target Price is now $105.

Shares of **Kulicke & Soffa** (KLIC – $65.33) continued their rise this year by gaining more than 20% last week after the chip-equipment maker reported a terrific third quarter. Believe it or not, shares have gained more than 100% since December 31. KLIC earned $1.79 per share in fiscal Q3, compared with the analyst consensus estimate of $1.36, and had revenue of $424 million, ahead of the $400 million consensus estimate. KLIC benefitted from the semiconductor industry's fast-paced expansion, especially in the capital equipment and APS (Aftermarket Products & Services) segments.

CEO Fusen Chen said, "We are aligned with the 3 prominent and fundamental technology transitions. This includes the increasing capital intensity occurring throughout the semiconductor assembly space, the very significant and the long-term transition within the automotive market and our direct involvement in accelerating industry adoption of new display technologies. In addition to this fundamental and structural growth driver, we are also extending market reach through aggressive R&D investment. These opportunities supported, with ongoing development investments and the new product introductions, target new opportunity within the automotive, electronic assembly and the display market. We will provide further update to these specific opportunities over the coming quarters. Finally, we are in a very dynamic expansionary phase of semiconductor consumption and production. This expansion period have occurred in roughly 10 years increments as new use for semiconductor were adopted. In the '90s, the driver was the global adoption of PCs. In the 2000s, global Internet access increased demand. Then over the last 10 years, mobility drove a new layer of semiconductor demand. Today, we have several new and meaningful end applications that are dramatically accelerating semiconductor production capacity."

Mr. Chen continued, "During the June quarter, we have begun our annual long-term planning process, which provides a more granular view into how these drivers are expected to favorably benefit our business. At a very high level, over the coming years, we anticipate annual semiconductor unit growth to continue running significantly above the long-term, historic 6.5% growth rate. Additionally, we are very confident in our ability to support new higher growth technology transitions that further extend our market reach and provide new vector of growth. We currently expect to reach $1.5 billion of revenue this fiscal year and are confident underlying business conditions will extend through fiscal 2022, supporting a multiyear industry expansion. Beyond 2022, our ongoing execution with specific new opportunities, supporting advanced display, advanced packaging, APS and the new adjacent opportunities, will continue to grow and support a new sustainable level of revenue and profitability. Considering this broad macro industry and the execution expectations, demand will remain strong supporting average annual revenue of $1.5 billion over the coming years."

For fiscal Q4, KLIC expects revenue around $465 million and EPS around $2.00. Were KLIC to achieve the targets, they would be substantially above current records for the company, a feat Mr. Chen attributes to efforts to mitigate supply chain challenges combined with very strong industry dynamics. KLIC has come a long way fast and the company operates in a market that is historically volatile, but we think that the hunger for semiconductors is unlikely to end soon and we are content riding the momentum a bit longer. Of course, every stock is fighting for its position in our portfolios, but the valuation metrics are still inexpensive (10.1 times NTM P/E, for example) and the balance sheet is solid (including $613 million of net cash). Given the rally in the stock price, the dividend yield has shrunk to 0.9% but our Target Price has been lifted to $78.