Market Commentary Monday, August 16, 2021

August 16, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Sold a Portion of our ALB
Value vs. Growth – Inexpensive Stocks Have Won the Long-Term Race…and they, Surprisingly, Outperformed Last Week
Health News – Delta Variant Still Rampant in the U.S.
Econ News – Big Drop in Consumer Sentiment; Jobs Numbers Improve
Inflation – CPI Remains High
Facts Over Fears – Big Gains for Stocks in 2013 & 2014 Despite a Taper Tantrum
Interest Rates – Rising Rates Historically Good…for Value
Corporate Profits – Terrific Q2 Numbers and Very Favorable Outlook for H2 2021 and 2022
Contrarian Sentiment – Liking that Folks are Still Not Very Enthused About Equities
Stock News – Updates on DIS, APD, TSN, MU, NLOK, NTR & OGN

Market Review

A little housekeeping prior to this week's missive. As indicated on our August 5 *Sales Alert*, we sold 45 and 19 shares of **Albemarle** (ALB – $235.22) respectively held in in TPS Portfolio and Buckingham Portfolio at $221.30 on August 9. We will also use that price to close out 13 of the ALB shares held in our hypothetical portfolio, Millennium Portfolio.

Note, too, that we are holding the balance of our stake in the lithium and other specialty chemicals maker for an upwardly revised $250 Target Price.

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While our attention is always centered on the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, the market action in the latest trading week was surprisingly pleasant. We say this because the kind of Value stocks that we have long championed outperformed Growth by a sizable margin, with the Russell 3000 Value index beating its Growth counterpart by a 102 basis points (1.06% vs. 0.04%) and the S&P Pure Value/Growth indexes seeing an even wider return dispersion (2.02% to -0.31%).

To be sure, it should not be a surprise to see Value topping Growth, as such has been the case by a wide margin over the long term,…

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	8/13/2021
17.5%	67.8%	579	39	2.3	3/23/2020	8/13/2021
15.0%	67.4%	563	45	2.0	3/23/2020	8/13/2021
12.5%	44.8%	338	72	1.3	3/23/2020	8/13/2021
10.0%	35.3%	247	98	0.9	3/23/2020	8/13/2021
7.5%	23.7%	149	157	0.6	9/23/2020	8/13/2021
5.0%	14.8%	73	306	0.3	10/30/2020	8/13/2021

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 8.13.21. 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

…while Value still is as attractive today on a relative basis as it was in March 2000, right before the bursting of the Tech Bubble ushered in a superb run for inexpensive stocks,…

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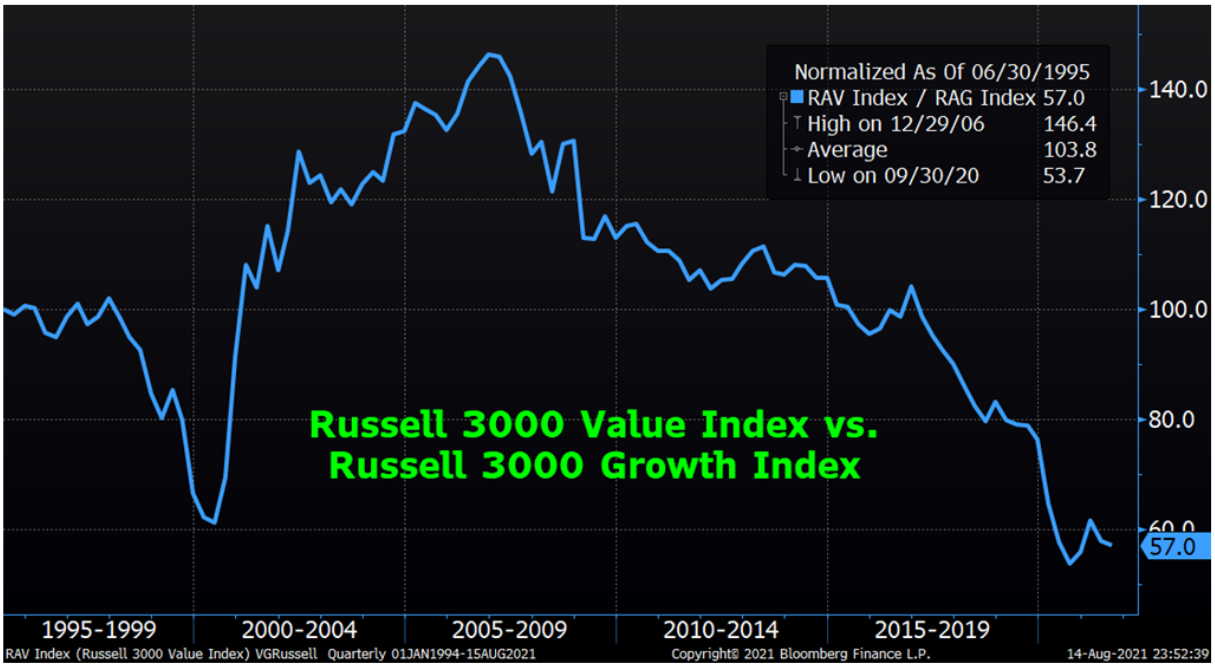
R3K VALUE "BUY" SIGNAL STILL LIKE 2000

Stocks with inexpensive financial metrics have outperformed this year and over the past 12 months, but the R3K Value index relative to the R3K Growth index on a total return basis is still near year 2000 levels.



…but recent correlations that favored Growth when the yield on the 10-Year Treasury dropped and Value when it rose might have argued for an inverted outcome last week or at least a closer returns race, given that the yield on the benchmark government bond began trading at 1.30% and ended at 1.28%.

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VOLATILITY NOT JUST AN EQUITY MARKET PHENOMENON

The bond market is supposedly where the smart money resides, but Treasury investors decided that they liked Uncle Sam's debt on Monday and Friday, but not on Tuesday, Wednesday and Thursday.

We also note that news from the coronavirus front did not get better last week,…

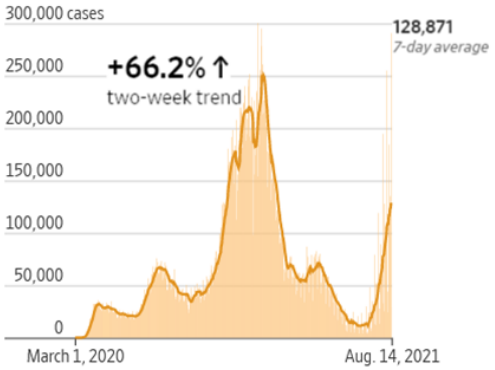
VACCINES VERY EFFECTIVE, BUT ONLY HALF THE U.S. IS FULLY JABBED

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. While the death toll has started to climb again, fatalities are well below prior peaks as 61.6% of the U.S. population age 18+ is fully vaccinated.

THE WALL STREET JOURNAL.

Daily reported Covid-19 cases in the U.S.

— Seven-day rolling average



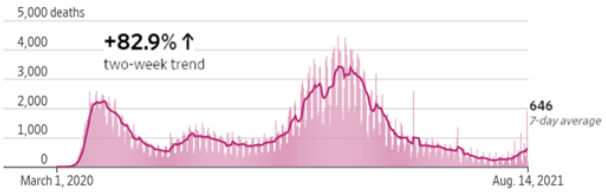
Note: For all 50 states and D.C., U.S. territories and cruises. Last updated Aug. 14, at 6:38 p.m.
Source: Johns Hopkins Center for Systems Science and Engineering

What to Know

- The seven-day case average in the U.S. continued to rise, although the seven-day deaths average remained well below the all-time peak.
- The Centers for Disease Control and Prevention recommended booster shots for immunocompromised people.
- Vaccination is increasingly a requirement to be hired.
- Los Angeles and Chicago's public schools are requiring teachers to get vaccinated.
- In Texas, more school districts are pushing back against an executive order banning mask mandates.

Daily reported Covid-19 deaths in the U.S.

— Seven-day rolling average



Notes: For all 50 states and D.C., U.S. territories and cruises. Last updated Aug. 14, at 6:38 p.m.
Source: Johns Hopkins Center for Systems Science and Engineering

…while there was a sharp drop (the worst reading since December 2011) in consumer sentiment that called into question the strength of the economic rebound,…

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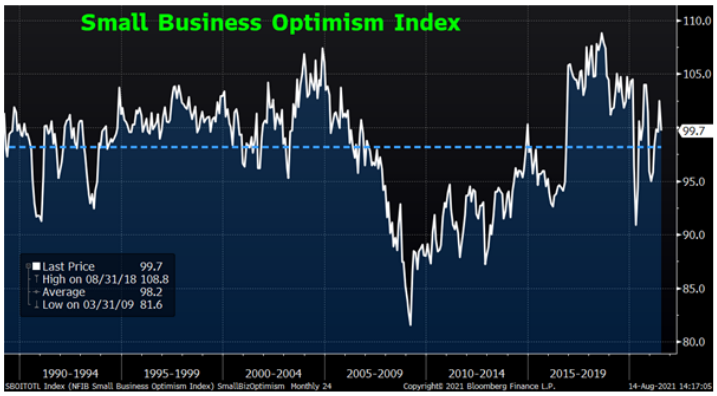
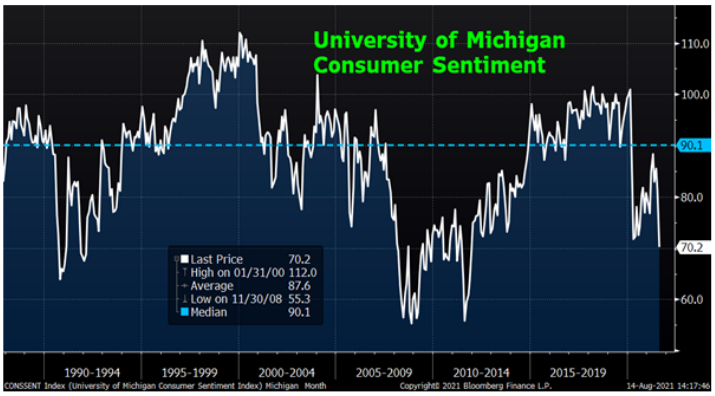
DISCOURAGING PICTURE ON MAIN STREET SENTIMENT





The NFIB Small Business Index for July pulled back 2.8 points to 99.7, trailing estimates as owners surveyed became more pessimistic on the U.S. economy. Showing much greater caution, the preliminary Univ. of Michigan gauge of consumer sentiment this month skidded to a much-weaker-than-estimated 70.2, down from a final reading of 81.2 in July. The median for this gauge has been 90.1, so consumers are far from optimistic.

…even as the latest snapshot of data on the jobs picture was trending in the right direction,…

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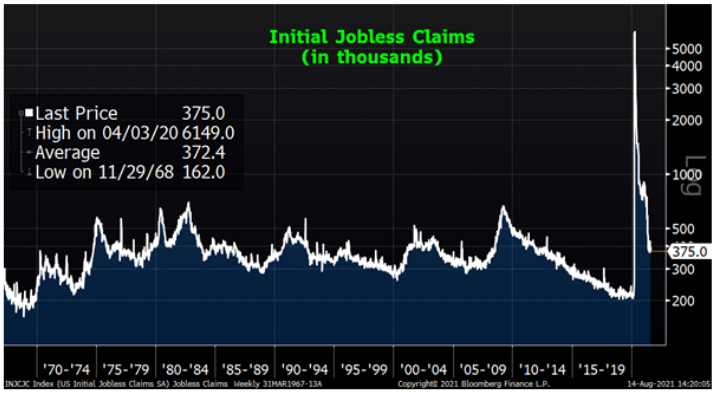
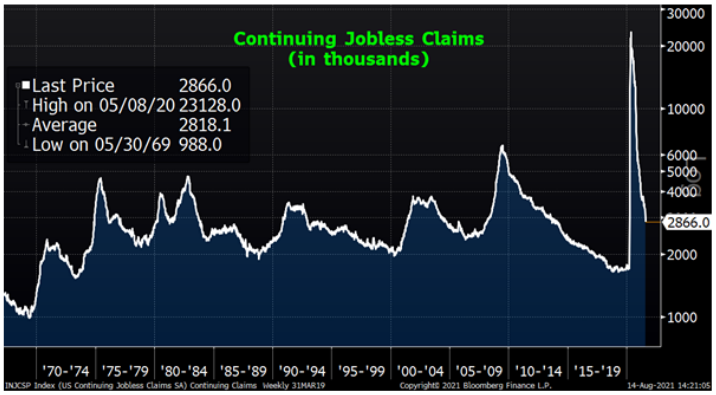
JOBLESS FILINGS AND CONTINUING CLAIMS NEAR/AT PANDEMIC LOWS





Even as California and Michigan posted increases, the jobs market recovery improved in the latest week, as new filings for unemployment benefits for the period ended August 7 came in at a seasonally adjusted 375,000, down 12,000 from the week prior and in line with expectations. Continuing claims filed through state programs dropped to 2.87 million, a new pandemic low, though there have been 87 million jobless applications filed over the last 73 weeks.

…and the most recent estimate from the Atlanta Fed for Q3 U.S. GDP growth was still very robust.

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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%.

Of course, the other big economic data point out last week was the latest read on inflation, though we always like to point out that the historical evidence shows that equities have done well whether consumer prices are rising or falling. And, Value has been an even better place to be in periods of high inflation,…

Inflation Jumps to 13-Year High

May price rise was 5% as the economic rebound from virus lockdowns accelerated

By Gwynn Guilford

The U.S. economy's rebound from the pandemic is driving the biggest surge in inflation in nearly 13 years, with consumer prices rising in May by 5% from a year ago.

The Labor Department said last month's increase in the consumer-price index was the largest since August 2008, when the reading rose 5.4%. The core-price index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before—the largest increase for that reading since June 1992.

Consumers are seeing higher prices for many of their purchases, particularly big-ticket items such as vehicles. Prices for used cars and trucks leapt 7.3% from the previous month, driving one-third of the rise in the overall index. The indexes for furniture, airline fares and apparel also rose sharply in May.

A separate reading showed the U.S. labor market continued to heal from the pandemic, with initial claims for unemployment benefits falling to another pandemic low.

Stocks edged higher on the inflation and labor-market news. The S&P 500 set a closing record, while both the Nasdaq Composite and the Dow Jones Industrial Average are within 1% of new highs.

May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

Overall prices jumped at a 9.7% annualized rate over the three months ended in May. On a month-to-month basis, overall prices rose a seasonally adjusted 0.6% and core

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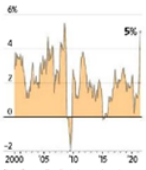
- Jobless claims drop, but hiring falls short A2
- Heard on the Street: Step into inflation's looking-glass B10

Consumer-price index



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

While many transitory factors appear to continue to be the cause, the consumer price index jumped in May by 5.0% and in June and July by 5.4% on a year-over-year basis...which if history is a guide bodes well for equity prices, especially Value stocks, over the next 3, 6 and 12 months!

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.3%	8.3%	6.5%	19.3%	15.1%
Geometric Average	3.6%	2.5%	6.9%	4.7%	17.2%	12.0%
Median	4.4%	3.5%	6.7%	4.8%	18.8%	15.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-30.3%	-48.0%
Count	156	156	156	156	156	156

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	2.6%	8.0%	5.5%	19.4%	13.5%
Geometric Average	3.0%	1.9%	6.3%	4.0%	16.4%	10.9%
Median	3.6%	2.2%	5.6%	4.1%	16.6%	11.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-55.8%	-48.0%
Count	228	228	228	228	228	228

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	2.9%	7.5%	5.8%	14.7%	11.2%
Geometric Average	3.2%	2.4%	6.6%	5.0%	12.9%	9.5%
Median	4.0%	3.3%	8.1%	6.3%	16.9%	12.6%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-46.3%	-36.6%	-52.2%	-39.9%
Count	610	610	607	607	601	601

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.3%	3.2%	8.3%	6.3%	16.2%	12.1%
Geometric Average	3.2%	2.5%	6.3%	4.9%	12.0%	9.2%
Median	4.0%	3.7%	8.2%	6.7%	16.3%	13.1%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	895	895	892	892	886	886

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

…such as where we stand today, with the headline consumer price index year-over-year increase of 5.4%. The figure was in line with expectations, though the change in the monthly core rate, which excludes volatile food and energy, rose 0.3%, below expectations of a 0.4% gain.

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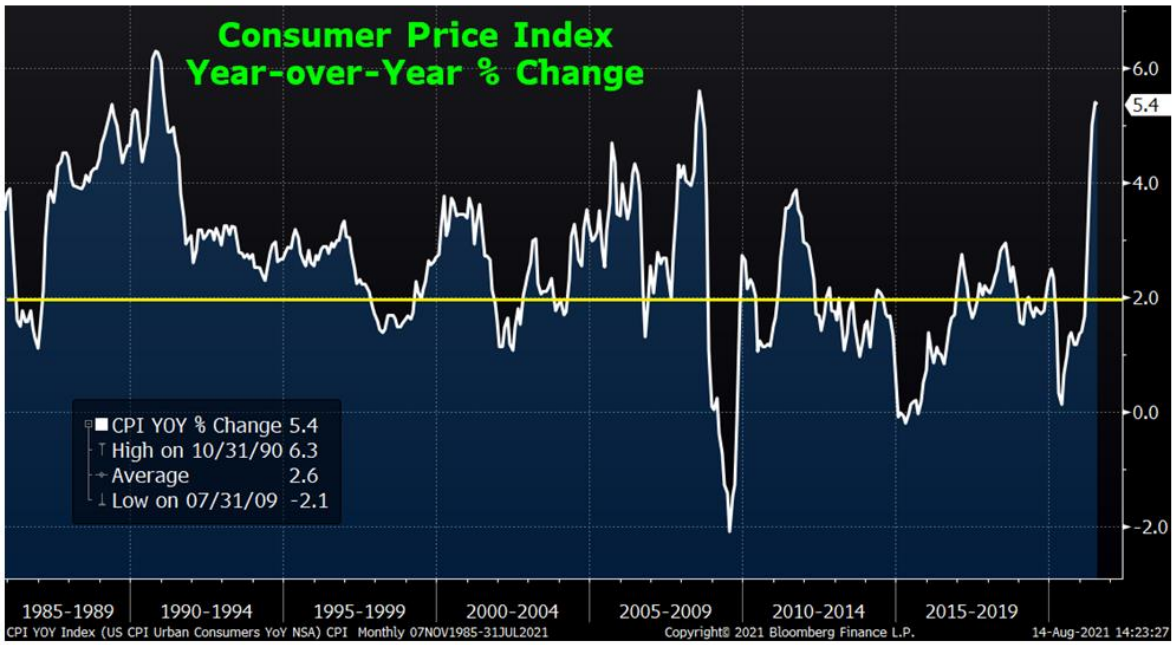
INFLATION AT THE CONSUMER LEVEL REMAINS AT 5.4% IN JULY

Inflation in the U.S. in July jumped by 5.4%, matching the advance of the month prior and persisting at the highest level since 2008. Still, used car prices rose only 0.2%, after soaring 30% from March to June, though energy prices climbed 1.6% vs. a 1.5% gain in June.



Obviously, inflation is an important consideration in the Federal Reserve's approach to monetary policy, and both Atlanta Federal Reserve Bank President Raphael Bostic and Richmond Fed President Tom Barkin suggested last week that a tapering of the ongoing bond-buying program could be in order very soon. We would lose little sleep over such an event, though we concede that market volatility would likely pick up,…

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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.

…especially as Value stocks historically have performed well when interest rates have been rising (and when they have been falling).

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.

That does not mean that we expect a huge increase in rates…and we continue to think that the interest rate climate will remain extraordinarily supportive of equities,…

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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 (3.70% vs. 1.28% 10-Year) and comparatively generous S&P 500 dividend yield of 1.31%.

…while we like that terrific Q2 report cards from Corporate America have been leading to increases in the earnings yield for the S&P 500, despite the index closing Friday at a record high,…

CORPORATE PROFITS – FANTASTIC Q2 NUMBERS

With 91% of S&P 500 companies having announced, Q2 reporting season has been sensational, even if stock price reactions often have left a lot to be desired. The majority historically beat expectations, but a record 85.1% of the S&P have exceeded EPS projections, while 83.1% have topped sales estimates.

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.94% S&P FIN ▲3.56% S&P IT ▲0.93% DJ TRANS ▲0.29% WSJ $ IDX ▲0.48% LIBOR 3M 0.128 NIKKEI 27820.04 ▲1.97%

Solid Profits Ignite Stocks

Companies beating analysts' expectations are on track for best showing ever

By Karen Langley

A strong corporate earnings season has bolstered the case for stocks.

Recent developments have had many investors expecting rockier trading in the coming months, following an 18% advance in 2021 that has taken the S&P 500 to 44 record closes.

The rapidly spreading Delta variant of the coronavirus has cast a cloud over the economic outlook, and rising prices have sparked debate over whether sustained inflation will hamper the recovery.

China's crackdown on corporations, meanwhile, has analysts considering the possibility of a drag on U.S. markets.

With these potential hurdles coming into view, investors have been heartened by a standout earnings season in which the share of big U.S. companies beating profit expectations is on pace for a record. What's more, companies are turning more of their sales into earnings, keeping profit margins at highs.

"The earnings coming out have definitely helped alleviate concerns of investors that maybe earnings are not going to keep up with the pace of the stock market," said Gene Goldman, chief investment of-

S&P 500 companies beating earnings estimates*

Index performance

Share-price performance

S&P 500 quarterly operating margins*

*Companies beat earnings estimates if their earnings per share are higher than the mean analyst earnings-per-share estimate the day the company reports; 2Q 2021 data as of Aug. 6 1Q2021 is an estimate

Source: FactSet (earnings, index, share-price); S&P Dow Jones Indices (operating margins)

Range Current Season CQ2 Ending: 5/16/2021 - 8/15/2021 Periodicity

S&P 500 INDEX

Surprise Growth

Sector (BICS)	Reported	Sales Surprise
11) All Securities	456 / 498	4.95%
12) > Materials	27 / 28	3.65%
13) > Industrials	67 / 69	2.70%
14) > Consumer Staples	24 / 34	6.04%
15) > Energy	23 / 23	11.81%
16) > Technology	67 / 80	5.11%
17) > Consumer Discretionary	47 / 59	3.95%
18) > Communications	24 / 24	4.58%
19) > Financials	61 / 61	5.71%
20) > Health Care	59 / 63	3.76%
21) > Utilities	28 / 28	4.71%
22) > Real Estate	29 / 29	3.57%

Range Current Season CQ2 Ending: 5/16/2021 - 8/15/2021 Periodicity

S&P 500 INDEX

Surprise Growth

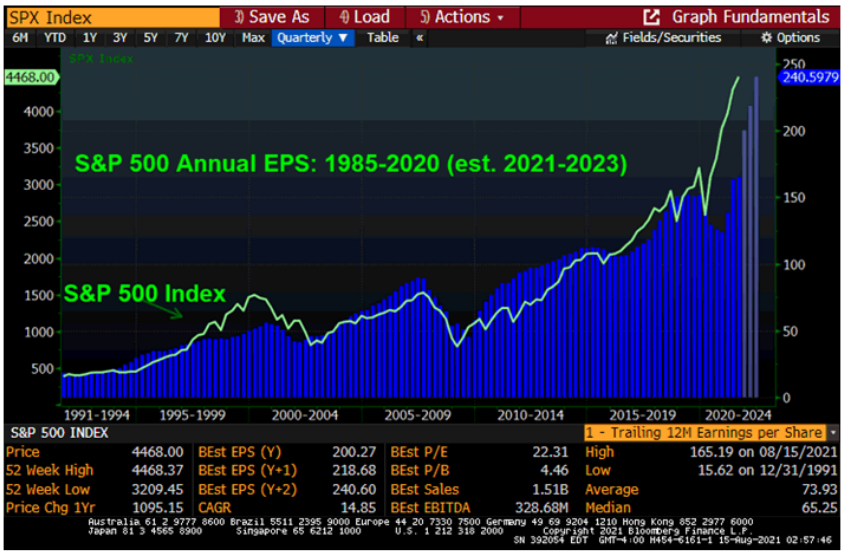
Sector (BICS)	Reported	Earnings Surprise
11) All Securities	456 / 498	17.22%
12) > Materials	27 / 28	4.46%
13) > Industrials	67 / 69	11.58%
14) > Consumer Staples	24 / 34	9.61%
15) > Energy	23 / 23	15.15%
16) > Technology	67 / 80	15.24%
17) > Consumer Discretionary	47 / 59	30.09%
18) > Communications	24 / 24	25.08%
19) > Financials	61 / 61	29.20%
20) > Health Care	59 / 63	9.05%
21) > Utilities	28 / 28	4.73%
22) > Real Estate	29 / 29	9.15%

…with excellent growth prospects going forward.

THE PRUDENT SPECULATOR

EPS PLUNGED IN '20 BUT LIKELY TO REBOUND MIGHTILY IN '21 & '22

Q2 2021 earnings reporting season has been sensational on both an absolute and a relative basis. Of course, full-year 2020 COVID-19-impacted EPS were miserable, so a massive rebound was expected, but estimates have been moving higher for 2021, 2022 and 2023.



S&P 500 Earnings Per Share

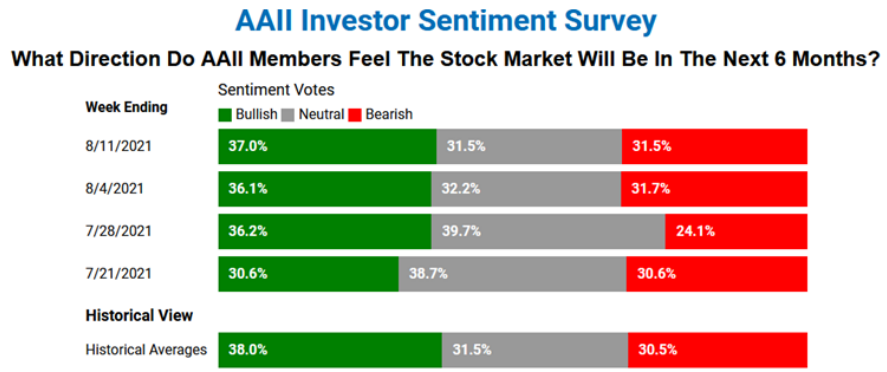
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$57.10	$216.88
9/30/2022	$55.11	$210.28
6/30/2022	$53.55	$203.68
3/31/2022	$51.12	$202.14
12/31/2021	$50.50	$198.43
9/30/2021	$48.51	$186.11
6/30/2021	$52.01	$175.50
ACTUAL		
3/31/2021	$47.41	$150.28
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 8.12.21

Certainly, geopolitical developments remain a wildcard, with the fallout from the lightning quick collapse of the Afghanistan government to the Taliban adding to the uncertainty in the Middle East. So, we continue to be braced for downside volatility, and we note that the equity futures were pointing south Sunday evening, but we like that sentiment on Main Street (a contrarian gauge) continues to be less Bullish than usual,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BELOW AVERAGE BULLISHNESS DESPITE RECORD HIGHS



AAII Bull-Bear Spread

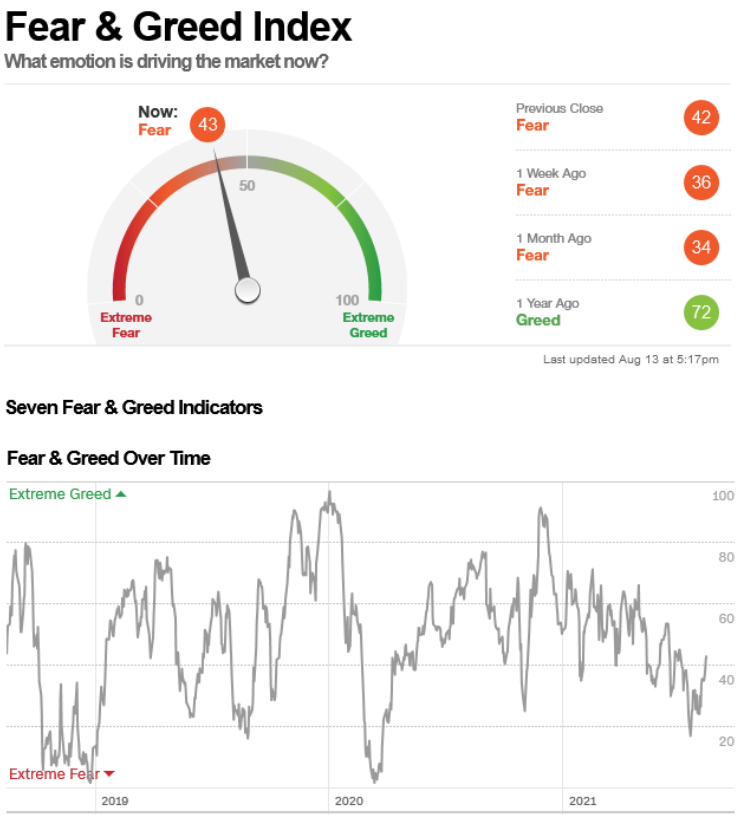
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 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	904	0.27%	0.23%	1.27%	1.13%	3.68%	3.29%	7.21%	6.46%
ABOVE	8.1	62.9	870	0.17%	0.15%	0.51%	0.42%	1.92%	1.66%	4.47%	3.99%
Ten Groupings of 1774 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	193	0.05%	0.02%	0.65%	0.55%	2.43%	2.18%	4.69%	4.17%
6	8.1	12.2	160	0.11%	0.09%	0.34%	0.21%	1.49%	1.26%	4.57%	4.07%
7	12.2	16.6	178	0.21%	0.19%	0.76%	0.66%	2.49%	2.24%	5.15%	4.72%
8	16.7	22.0	182	0.16%	0.14%	0.72%	0.65%	2.05%	1.77%	5.90%	5.48%
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 8.12.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed as a contrarian indicator, so the number of Bulls in the latest AAII Sentiment Survey below normal and the tally of Bears above average would be viewed as a positive. The 5.5-point Bull-Bear spread is below par and in the 5th decile of the historical figures.

…with Fear, and not Greed, the current emotion on a real-time metric,…

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 Stock Price Breadth and Stock Price Strength are offset by Greed in Market Momentum, Safe Haven Demand and Junk Bond Demand.

…as evidenced by dollars again flowing out of U.S. equity mutual and exchange traded funds and into the perceived safety of fixed income.

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	8/4/2021	7/28/2021	7/21/2021	7/14/2021	7/7/2021
Total Equity	7,897	6,996	1,178	7,598	-7,575
Domestic	-4,024	2,241	-3,356	1,283	-10,370
World	11,921	4,756	4,534	6,315	2,795
Hybrid	308	381	1,148	402	1,064
Total Bond	7,850	12,876	2,711	5,883	12,747
Taxable	5,622	9,615	372	2,441	9,888
Municipal	2,228	3,261	2,339	3,442	2,859
Commodities	247	-77	-822	-592	-564
Total	16,302	20,177	4,215	13,291	5,672

Source: Investment Company Institute

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!

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

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart look at several of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices.

Entertainment powerhouse **Walt Disney Co.** (DIS – $181.08) earned $0.80 per share in Q3, versus the analyst consensus estimate of $0.55. Revenue came in at $17.02 billion, versus the $16.80 billion estimate. The overall Disney streaming subscriber count (Disney+, ESPN+ and Hulu) was 174 million. Disney+ leads the group with 116 million subscribers, a figure management expects to grow as the media company regularly launches new content on the platform. Domestic advertising revenue grew on a year-over-year basis for cable and broadcasting thanks to the return of live sports and a resurgence in marketing budgets. And, with the theme parks operating again, the Parks, Experiences and Products segment saw a massive

year-over-year revenue ($4.3 billion vs. $1.1 billion) and operating income ($356 million vs. a $1.9 billion loss) improvement for the period.

CEO Bob Chapek commented, "As has been the case for Disney's nearly 100-year history, it all begins with great storytelling, which is the foundation of our special connection to audiences and guests, and our foremost priority will continue to be to tell the world's most original and enduring stories brought to life by the world's most talented creators. As home to some of the most beloved franchises, we will maximize the synergy of our unique ecosystem to further deepen consumers' connection to our characters and stories, and we will use the power of our far-reaching platforms and emerging technologies to better anticipate what our consumers want and deliver them a more seamless and more personalized entertainment experience."

Mr. Chapek continued, "We have a robust and growing portfolio of DTC (direct-to-consumer) services powered by the world's best storytellers and greatest brands and franchises. And a parks business, which extend those stories and creates a place where magic comes to life in a more guest-friendly way than ever."

CFO Christine McCarthy offered an update on the company's dividend status, "Longer term, we do anticipate that both dividends and share repurchases will remain a part of our capital allocation strategy. However, for the time being, we don't anticipate declaring a dividend or repurchasing shares until we return to a more normalized operating environment and our leverage is back to levels more consistent with a single A credit rating."

We think Disney is faring quite well, all things considered, and we appreciate the company remaining cautious on the resumption of dividend payments and buybacks. Of course, we love a good yield, but the company needs to retain some operating cash in case the pandemic situation worsens again. At present, we do not expect lockdowns like last year, but we do expect continued challenges with infection rates, particularly in locales that have low vaccination rates. Government officials have the final call, but Disney's corporate policy is that all non-union and salary employees are required to provide proof of vaccination to work, which we think will help keep the parks open and, as Mr. Chapek pointed out, otherwise mitigate the impact of the pandemic. Disney's parks are a cash machine and we were excited to see the company's Magic Key annual pass program is not cost prohibitive (we agree, it's far from inexpensive, but we feared that the price could have been much higher to keep it elite). Analysts expect DIS earnings per share this year to come in around the $2.50 level, but think that number will swell near $5 in 2022 and above $6 in 2023. Of course, that makes DIS look very expensive in the near term, and less expensive over the long term. We continue to like management's choices to leverage Disney's deep content portfolio, while we think that rest of the business lines are poised for a great rebound as the pandemic recedes. Our Target Price for DIS has been increased to $213.

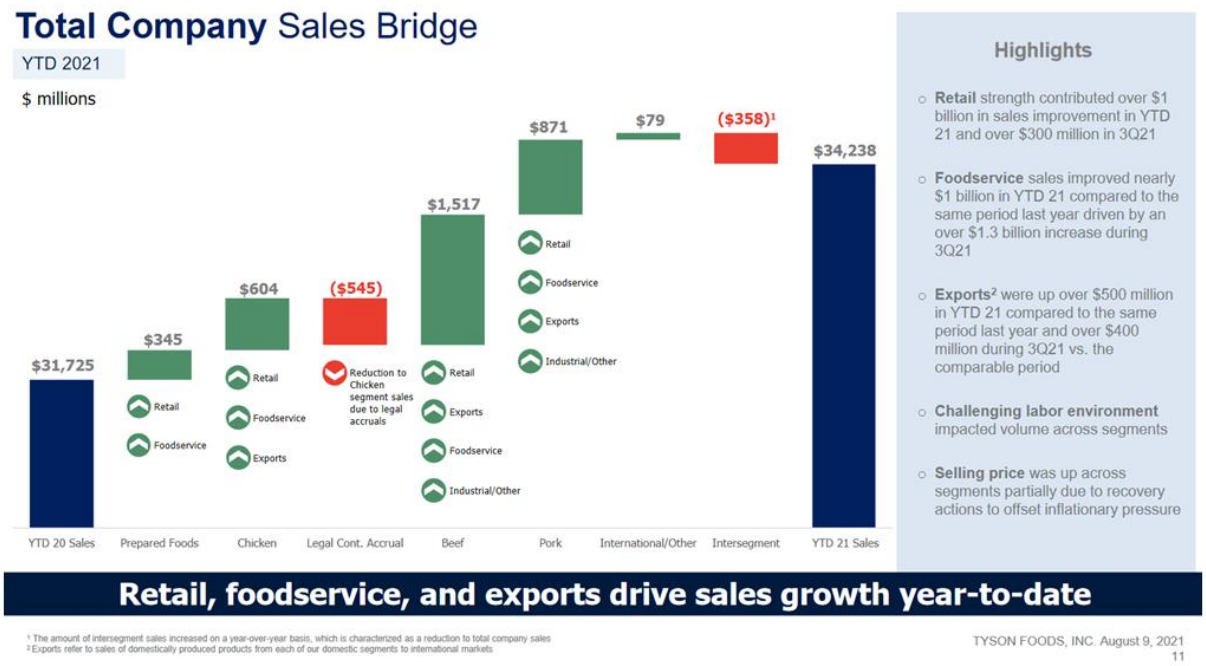
Shares of **Air Products and Chemicals** (APD – $279.74) dipped some 4% last week as the industrial gas concern reported that it earned $2.31 in fiscal Q3, a hair below the $2.35 expected by analysts. Sales grew 26% year-over-year on 25% growth in the Americas segment and 45% growth in EMEA, although the firm's net margin shrank 220 basis points in the quarter. Management expects EPS of $2.44 to $2.54 in fiscal Q4 (11% to 16% above that posted in fiscal Q4 2020) and full-year fiscal 2021 EPS between $8.95 to $9.05 (up approximately 8% over prior

year adjusted EPS). Air Products continues to lean into hydrogen as an alternative fuel source, inking a partnership with Baker Hughes for innovation of gas production and an informal agreement with powertrain producer **Cummins** (CMI – $237.72) to accelerate the integration of hydrogen fuel cell vehicles.

Commenting on the results, APD CEO Seifi Ghasemi said, "The stability of our business and the dedication of our people have been on full display, as we continue to deliver strong financial results despite the challenges of the pandemic. Our sales, adjusted EBITDA and adjusted EPS grew double digits this quarter versus prior-year quarter, and our price and volume continue to be strong. We continue to build on what we do best, driving the energy transition by developing, owning and operating world-scale, sustainability-driven projects and forming strategic partnerships that enhance our leadership positions."

We like that industrial gases are indispensable, yet they account for a small fraction of overall costs for those who use them, so customers are often willing to pay up and enter long-term contracts to ensure they have what they need in a timely fashion. After acquiring Shell and GE's gasification businesses, APD is now the global leader in this segment, setting it up for material opportunity in China and India as those economies continue to industrialize and expand. We are also constructive on the company's efforts in on-site investments with its customers, as they often provide more stable cash flows. And we are intrigued by the potential for more widespread use of alternative fuels, such as renewable diesel, which requires much more hydrogen to produce than petroleum-derived diesel. High-quality APD sports a 2.1% dividend yield and excellent long-term growth potential. Our Target Price for APD now resides at $343.

After posting really strong fiscal Q3 results that included a better-than-expected top- and bottom-line, shares of **Tyson Foods** (TSN – $81.91) ended the week up more than 15%. The recently ended three-month period for the protein producer saw revenue come in at $12.48 billion, versus the consensus analyst estimate of $11.49 billion, while adjusted EPS of $2.70 blew away the average forecast of $1.63 by more than 65%. Sales were 14.6% higher than the comparable period in 2019. Stronger revenue was primarily driven by price, with the average wholesale prices for beef, pork, and chicken during the quarter 35%, 51% and 11% higher than the three-year respective averages, according to the U.S. Department of Agriculture.



A combination of events in Tyson's beef segment (36% of fiscal 2020 sales) drove materially higher profit margins than anyone expected. An ongoing drought in the Western U.S. caused numerous cattle ranchers to liquidate herds prior to expectations, providing excess supply that gave TSN some price relief despite materially higher prices for processed cuts of beef. As a result, Tyson reported 22.6% beef segment operating margins, well above the 6% to 7% that most investors have come to expect in a "normal" environment. On a consolidated basis, Tyson's operating margins expanded 320 basis points to 10.8%, as higher sales leveraged fixed operating costs. Additionally, TSN announced that it ended the quarter with net debt/adjusted EBITDA at just 1.7 times, down from 2.7 times in the year-ago period. At the end of June, Tyson had $3.4 billion in liquidity and received an additional $1.2 billion cash in July for the sale of its pet treats business

Tyson CEO Dean Banks commented, "We delivered a strong performance in a strong protein market. With trusted brands that met strong consumer demand, we have delivered 12 consecutive quarters of share gains in core business lines at retail. Our foodservice volume improved as the restaurant industry began to reopen and recover. Our beef business increased production to meet strong U.S. and international demand for higher-quality products. And we continued to build financial strength, reducing our debt and investing in future growth by laying out plans to expand our business, both to address capacity constraints and meet growing demand."

While there will continue to be operational headwinds, we believe Tyson should benefit from positive global trade developments and choppy but persistent global reopening of restaurants. The near term is murky, especially with higher-than-normal input costs and numerous economies at various stages of emergence from pandemic lockdowns. Still, we like the potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as citizens see quality-of-life improvements. Tyson trades with a reasonable forward P/E ratio of less than 13 and a yield of 2.2%. Our Target Price for TSN has been hiked to $104.

Micron Technology (MU – $70.92) initiated a dividend on August 2, a major step for the memory maker that was founded in Boise, ID in 1978. The $0.10 quarterly dividend, though far from the most generous of our holdings, is a sign of stability and part of the company's longer-term capital planning. In the press release, CEO Sanjay Mehrotra said, "Micron's remarkable transformation over the last several years has put the company in an outstanding position, with technology leadership, a robust product portfolio, enhanced profitability, and a strong, investment grade balance sheet. This transformation creates the opportunity today to enhance the value of our capital returns program. Initiating a common stock dividend reflects our confidence in Micron's future and our commitment to creating compelling value for shareholders." The dividend will be paid in addition to the company's share repurchase program, which has bought back 90 million shares for $4 billion since it was first announced in May 2018.

Alas, Micron shares skidded last week, tumbling more than 13%, due in large part to analyst concerns about the near term. This, even as at a virtual Keybanc conference on August 10, CFO David Zinsner said, "We see very positive trends both for DRAM and NAND. We also talked in June that we thought pricing would be up in both DRAM and NAND for the fourth fiscal quarter. So those are obviously positive signs. When I look at the markets, and I'll kind of break them down; cloud, we're still seeing robust demand in cloud, not surprisingly capital investment continues to be strong with our customers. And of course, as we migrate through this year and into next year with new CPU architectures, we'd also expect good content improvement in cloud."

Mr. Zinsner's positive outlook differed from Morgan Stanley analyst Joseph Moore, who downgraded the stock on August 11 and warned that "Winter is Coming" for the memory business. We aren't convinced that will pan out, at least for the foreseeable future, given that it seems like most things around us have some sort of memory chip in them. Plus, from an analyst standpoint, a catchy and dark title is an important part of press coverage…even if the underlying thesis isn't so dark.

Though a 0.6% yield won't turn many heads, we think it's a good starting point and like that management is confident enough in the business to begin returning cash to shareholders on a regular basis (share repurchases in large part are discretionary). Micron has a balance sheet with over $8 billion in cash and short-term investments, while analysts expect EPS of some $6 per share this year and more than $11 in each of fiscal years 2022 and 2023. Even though the business has tended to be lumpy, we are content with our current positioning and our Target Price for MU is presently $121.

NortonLifeLock (NLOK – $28.45) gained nearly 10% last week after the company announced plans to acquire Prague-based cyber-security company Avast PLC. NLOK will acquire Avast in an $8.6 billion cash and stock deal that is expected to close by June next year. Via press release, NortonLifeLock CEO Vincent Pilette said, "This transaction is a huge step forward for consumer Cyber Safety and will ultimately enable us to achieve our vision to protect and empower people to live their digital lives safely. With this combination, we can strengthen our Cyber Safety platform and make it available to more than 500 million users. We will also have the ability to further accelerate innovation to transform Cyber Safety."

THE PRUDENT SPECULATOR

NLOK – AVAST TRANSACTION DRIVING DOUBLE-DIGIT EPS ACCRETION

We think the deal is interesting, particularly as there aren't very many high-quality consumer-oriented antivirus software providers out there. The union seemed to be warmly welcomed by investors, as evidenced by the shares of both firms rising, a somewhat rare occurrence (usually the acquiree rises and the acquirer drops). There are the usual legal and regulatory hurdles to clear yet, so we aren't baking the Avast results into our model yet, but we are generally positive on the transaction. Our Target Price for NLOK has been elevated to $36.

Nutrien Ltd (NTR – $63.61) saw its share price rise by nearly 7% last week after dramatically boosting its full-year guidance. The the crop input and services concern said that the increase comes on the heels of strength in fertilizer pricing supported by robust global crop demand. Adjusted EBITDA was over $3 billion in the first half of 2021, up 36% over last year's level, with $1.2 billion adjusted EBITDA generated in the second quarter. Management now expects full-year 2021 adjusted EBITDA and adjusted earnings per share in a range of $6.0 billion to $6.4 billion and $4.60 to $5.10 per share, respectively.

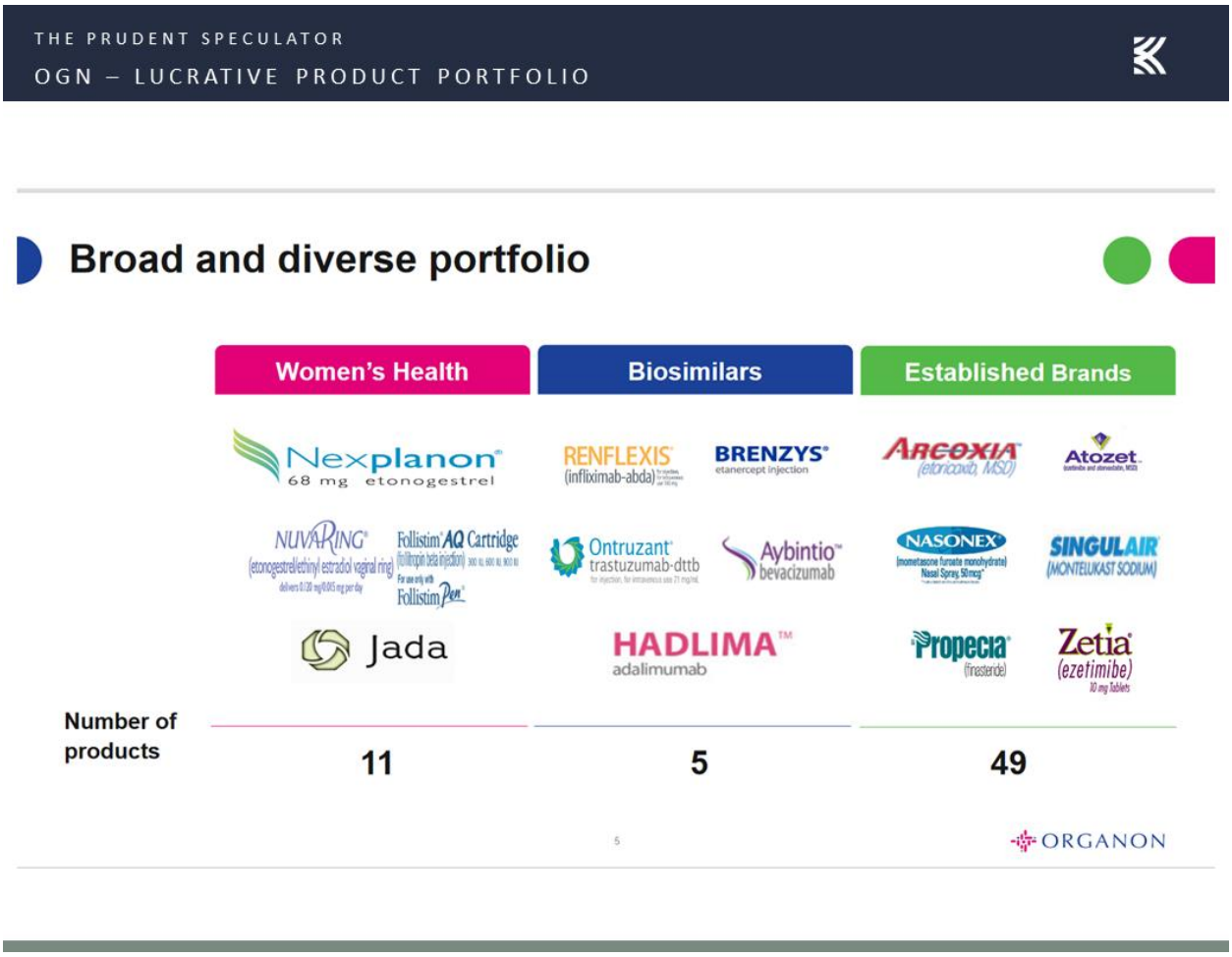
Nutrien CEO Mayo M. Schmidt explained, "We are focusing all-time high global potash consumption in 2021 due to exceptional spot market demand in the U.S. and Brazil and in Southeast Asia, where we saw a significant market recovery this year. The demand has positioned Canpotex to place greater emphasis on these higher netback markets compared to contract markets of China and India. Overall, we project to produce nearly 14 million tonnes of potash in 2021. In fact, by the fourth quarter, we anticipate Nutrien to serve potash production to approximately 17 million tonnes on an annualized equivalent basis. We will continue to be proactive and flexible with our operating rate."

Commenting further on prospects for company, he said, "We believe the future outlook for our company is excellent. We expect crop prices to remain well above historic levels and fertilizer markets to remain tight. We will also benefit from our ongoing commitments to operational excellence, execution, a keen focus on cost and inventory management, continued value-added growth and a strengthening return on investment. As such, we raised our consolidated annual adjusted EBITDA guidance by more than $1.5 billion or over 33% and our EPS by nearly 70%. This is due to stronger earnings outlook across all business lines and executing on our competitive advantages. We believe this positive earnings outlook will continue into 2022, further strengthening our balance sheet. We will maintain our disciplined compete for capital approach, which includes the potential for further investment in the business, deleveraging of the balance sheet and additional returns to our shareholders. Our purpose is to help growers increase food production in a sustainable manner. There is no better example of this commitment than our responsiveness of our team to quickly and safely bring on an additional 1 million tonnes of potash production to improve access of this important nutrient for growers globally."

We continue to like that Nutrien has a strong balance sheet and scale offered by a large retail presence with over 2,000 locations in seven countries, diversification across the three major crop nutrients and a strategy of selling directly to farmers. We remain constructive on the long-term global agriculture story, and think the company is a big beneficiary. NTR trades at 11.6 times forward earnings per share estimates, while the dividend yield is 2.9%. We have raised our Target Price to $81.

Shares of **Organon & Co.** (OGN – $34.21) rocketed nearly 12% on Thursday as the **Merck** (MRK – $76.72) spinoff released its first quarterly results as a standalone entity. The bottom-line shattered estimates, coming in at $1.72 per share, versus a $1.41 consensus forecast. Biosimilars and Women's Health segments grew 43% and 19%, respectively, while Established Brands declined by a modest 4% as total revenue grew 4.5% year over year gross of foreign exchange effects. Management stated earlier this year that it anticipates revenue of $6.1 billion to $6.4 billion for the full year and an operating margin of about 45%.

Organon CEO Kevin Ali commented, “Since well before Organon’s June 2nd spin-off from Merck, thousands of employees have been hard at work standing up Organon, committed to a shared vision to advance the health of women. Already, we have demonstrated our commitment to identifying potential opportunities to help address some of the most important unmet needs in women’s health, with an acquisition focused on treating post-partum hemorrhage as well as a licensing agreement to develop an investigational agent being evaluated to delay pre-term labor. At the same time, we are focused on driving our business, with all three of our franchises delivering on their objectives. Accordingly, today we affirmed our full year 2021 guidance. Looking beyond 2021, we remain confident in our ability to organically grow revenue in the low to mid-single digit range, as LOE risk will largely be behind us and Women’s Health and Biosimilars are positioned to deliver double digit growth.”



While our current holdings of OGN are small, and subject to potential consolidation into other undervalued stocks, we appreciate that the company modestly grew revenue in the quarter. Now that losses of exclusivity are baked in going forward, we are a bit perplexed by the stock trading at a low, single-digit multiple of management’s earnings guidance, though there is a massive debt load of over $9 billion. The company recently declared a quarterly dividend of $0.28 per share, which puts the yield at an attractive 3.2%. While we do not see a whole lot of overall

growth potential from the current stable of products, we think that there will be plenty of cash flow generated as we move forward. Our Target Price for OGN is $56.