Market Commentary Monday, August 23, 2021

August 22, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Sold a Portion of our KR
Week in Review – Downside Volatility Nothing New
Econ News – Delta Variant Has Folks Concerned About the Health of the Consumer
LEI – Leading Economic Index Better than Expected
FOMC Minutes – Fed Relatively Upbeat; Tapering Could Come Sooner than Projected
Interest Rates – Stocks Very Attractively Valued on a Relative Basis
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
Equity Risk – Chances of Loss for Stocks Dwindle the Longer the Holding Period
Safe Investment Risk – Negative Yielding Government Bonds and Money Markets Offer Dismal Real Return Prospects
Stock News – Updates on WMT, TGT, LOW, FL, KSS, TPR, DE & CSCO

Market Review

A little housekeeping prior to this week's missive. As indicated on our August 17 *Sales Alert*, we sold 46 shares of **Kroger** (KR – $46.94) held in Buckingham Portfolio at $46.2114 on August 19. We will also use that price to close out 186 of the KR shares held in our hypothetical portfolio, PruFolio.

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While the latest week ended on a positive note with a solid rebound on Friday, the last five trading days provided yet another reminder that stock prices can be quite volatile and that they can move in both directions in the short run, even as the long-term trend has been markedly higher.

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%	990	27	3.4	3/23/2020	8/16/2021
17.5%	67.8%	579	39	2.3	3/23/2020	8/16/2021
15.0%	66.4%	563	45	2.0	3/23/2020	8/16/2021
12.5%	44.9%	338	72	1.3	3/23/2020	8/16/2021
10.0%	35.3%	247	98	0.9	3/23/2020	8/16/2021
7.5%	23.8%	149	157	0.6	9/23/2020	8/16/2021
5.0%	14.8%	73	306	0.3	10/30/2020	8/16/2021

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 8.16.21. 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

No doubt, the ugly news out of Afghanistan started the week off on the wrong foot,…

AFGHANISTAN DOMINATES THE HEADLINES

The fall of Kabul and the chaos that has ensued captured the lion's share of media attention last week, pushing COVID-19 developments and economic news off the front page.


THE WALL STREET JOURNAL.

Taliban Seize Power as U.S. Retreats

Biden Stands By Troop Withdrawal Despite Criticism

Desperate Rush to Get Out Was 'Saigon on Steroids'

August 16, 2021


THE WALL STREET JOURNAL.

What's News

Chaos Engulfs Afghan Withdrawal

Biden Calls Exit 'Right Decision'

August 17, 2021


THE WALL STREET JOURNAL.

What's News

Fearful Afghans Struggle to Get Out of Country

Biden Knew Risks of a Hasty Withdrawal

Shopper Pullback Leads to 1.1% Drop

Flooding Follows Quake in Haiti

August 18, 2021


THE WALL STREET JOURNAL.

What's News

Taliban Violently Suppress Protests

Swift Victory Was Years in Making

Fear Drives Afghan Women From View

August 19, 2021


THE WALL STREET JOURNAL.

What's News

Officials In Kabul Warned Of Quick Collapse

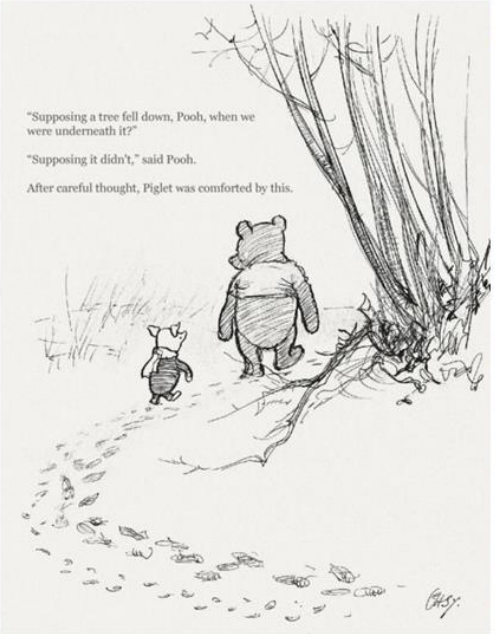
Protests in Afghanistan Widen As U.S. Works to Ease Exits

August 20, 2021

…even as equities have always managed to overcome in the fullness of time every previous disconcerting event on the geopolitical stage.

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

COVID-19, geopolitics, higher interest rates and increasing inflation 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	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	51071%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	29511%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26513%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10324%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9645%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11295%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8204%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6281%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4661%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5788%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4720%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6246%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4121%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4422%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3618%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2643%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1715%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1875%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1305%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1080%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	979%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	902%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	872%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	779%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	406%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	363%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	261%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	231%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	360%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	385%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	307%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	271%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	557%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**6112%**

As of 8.20.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

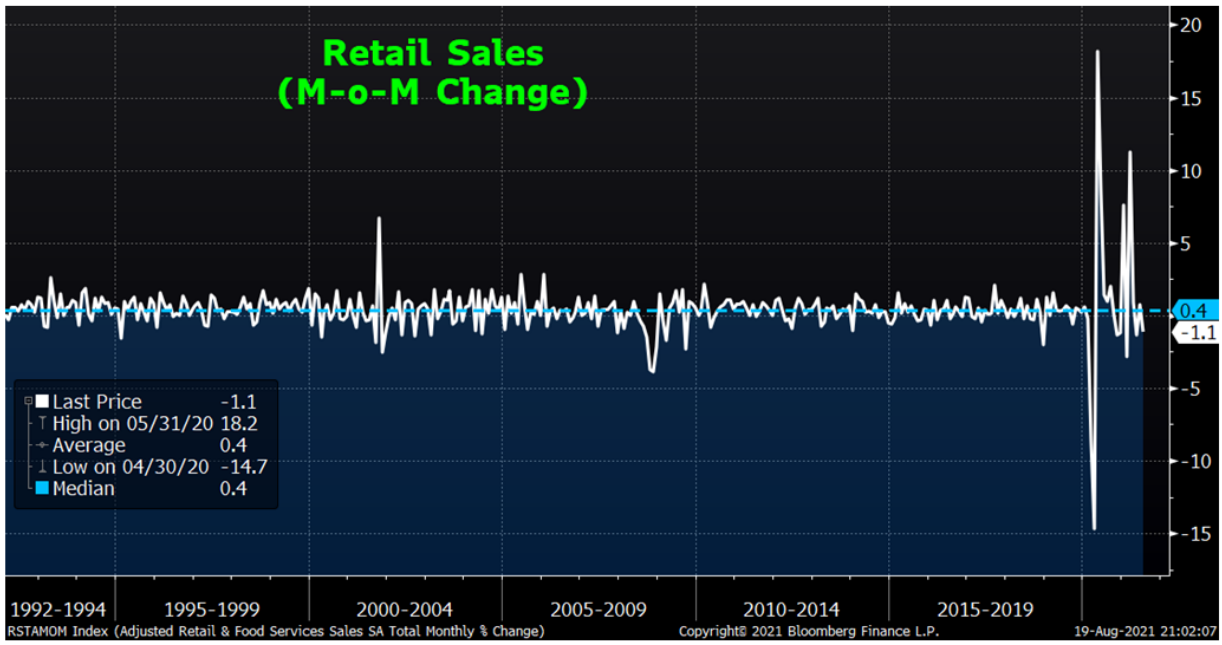
Certainly, we are not seeking to downplay that the resurgence of the Taliban alters the landscape in Asia and the Middle East, while elevating the threat of terrorism, but the U.S. equity markets were seemingly more concerned about the continued rise in domestic COVID-19 cases and the potential impact on economic growth.

After all, the so-called reopening trade went into reverse last week, as Growth stocks outperformed Value by a sizable margin, with the S&P 500 Pure Value index tumbling 3.00% compared to a small 0.02% loss for the S&P 500 Growth index. The primary catalyst stoking economic worries was a weaker-than-expected report on retail sales,…

THE PRUDENT SPECULATOR

RETAIL SALES MISS EXPECTATIONS IN JULY

With economists citing a shortage of new vehicles and a "hangover" from June's Amazon Prime Day, retail sales pulled back by 1.1% in July, a weaker-than-expected dip. Still, with a 16% year-over-year gain turned in last month, retail sales have easily exceeded pre-pandemic levels.



…while the latest housing numbers fell more than forecast,…

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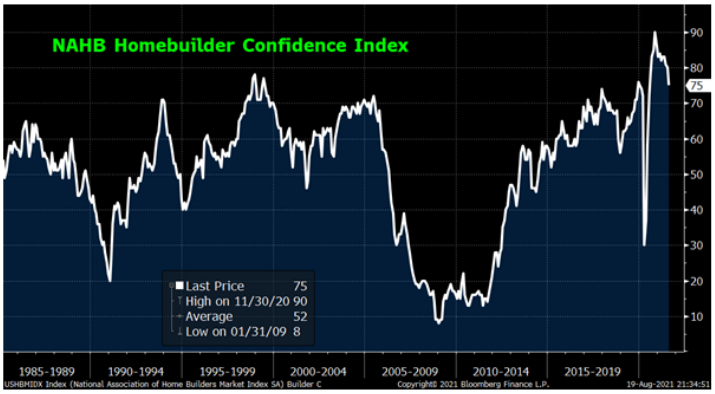
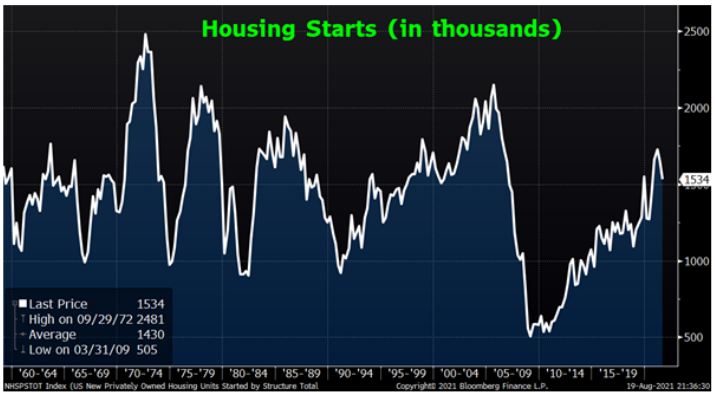
HOT HOUSING MARKET CONTINUES TO COOL





The National Association of Home Builders' monthly confidence index for August pulled back another five points to a reading of 75. Of course, this is still a very elevated level, even as it does mark a continued retreat from November's record tally of 90 on the 35-year-old gauge. Expensive prices, impacted by higher materials and labor costs, are keeping a lid on housing, and builders have returned to a pre-pandemic level of construction on new homes.

…and manufacturing figures were not as strong as projected.

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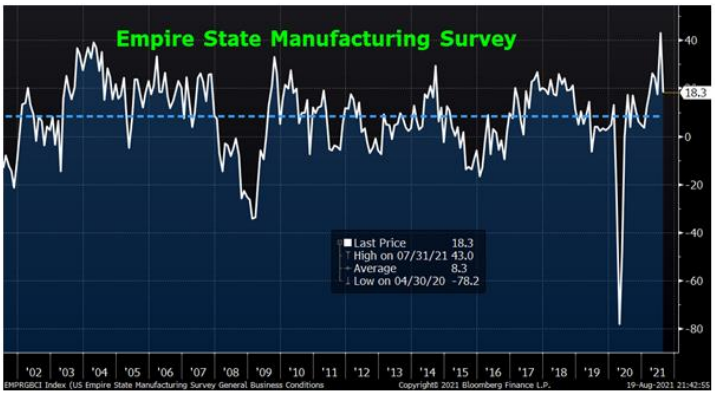
EAST COAST FACTORY ACTIVITY STILL VERY STRONG IN AUGUST



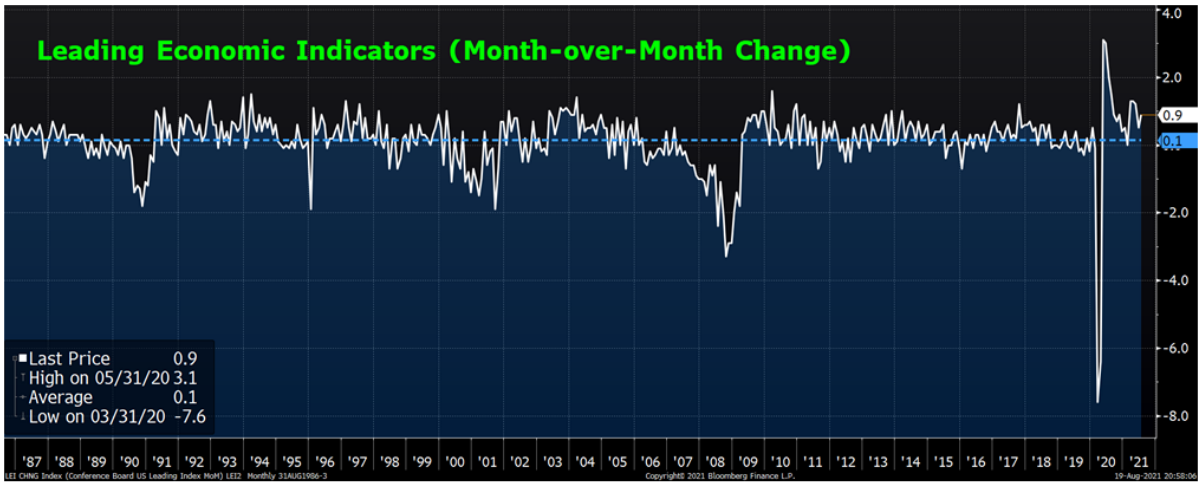
The Empire State gauge of manufacturing activity in the New York area skidded in August to a worse-than-expected 18.3, pulling back from July's all time high. The Philadelphia Fed's August measure of manufacturing activity in the mid-Atlantic region retreated to a still-very-strong reading of 19.4, down from a 50-year high of 50.2 four months prior. Both indexes are still well above average for this business conditions measure, despite supply-chain bottlenecks.

Interestingly, however, the latest forward-looking Leading Economic Index rose by a greater-than-estimated 0.9%,…

THE PRUDENT SPECULATOR

LEI JUMPS AGAIN – 6.0% GDP GROWTH PROJECTED IN 2021

The forward-looking Leading Economic Index rose by 0.9% in July. The keeper of the metric stated, "The Leading Index's overall upward trend, which started with the end of the pandemic-induced recession in April 2020, is consistent with strong economic growth in the second half of the year. While the Delta variant and/or rising inflation fears could create headwinds for the U.S. economy in the near term, we expect real GDP growth for 2021 to reach 6.0 percent year-over-year, before easing to a still robust 4.0 percent growth rate for 2022."



…and other economic data points also came in better than expected,…

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BETTER-THAN-EXPECTED ECON STATS

Industrial production jumped 0.9% in July, well above projections for a 0.5% advance, as auto makers did not take their usual summer breaks, with capacity utilization coming in at 76.1%, the highest rate since the pandemic began. The labor market continued to improve as the number of first-time filings for unemployment benefits came in below expectations at 348,000 for the latest week, a drop of 29,000 from the week prior and a new pandemic low.

…while the Atlanta Fed's forecast for Q3 domestic GDP growth inched up in its latest reading.

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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 6.1%, up from 6.0% two weeks ago.

Also, the release of the Minutes of the Federal Open Market Committee's July meeting included the following:

With respect to the path of net asset purchases, respondents to the Open Market Desk's surveys of primary dealers and market participants expected communications on asset purchases to evolve gradually, with signals anticipated over coming months regarding both the Committee's assessment of conditions constituting "substantial further progress" and details on tapering plans. Almost 60 percent of respondents anticipated the first reduction in the pace of net asset purchases to come in January, though, on average, respondents placed somewhat more weight than in the June surveys on the possibility of tapering beginning somewhat earlier.

Obviously, the path of the virus will be critical in the Federal Reserve's decisions to begin tightening monetary policy, but the Fed has been relatively upbeat in its economic assessments. True, we have to expect equity market volatility around any sort of Fed tapering announcement, but it was very much short-lived when such an event occurred in 2013,…

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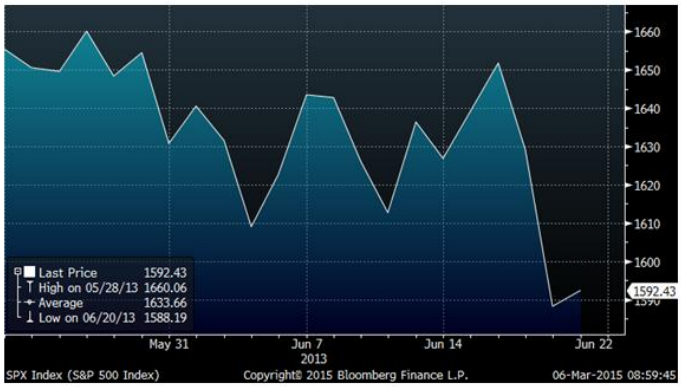
2013 "TAPER TANTRUM" WARNING

On May 22, 2013, Ben Bernanke hinted that the Federal Reserve would soon begin to taper it's $85 billion per month in purchases of bonds and mortgage-backed securities. One month later, the S&P 500 had dropped 3.8%.



Yet, one year later, the S&P 500 had recouped those losses and then some, rising 14.3% from May 21, 2013, to May 22, 2014, even though Janet Yellen's Fed actually started to taper by $10 billion per month in January 2014.

…with stocks performing very well even after the tapering had begun in 2014.

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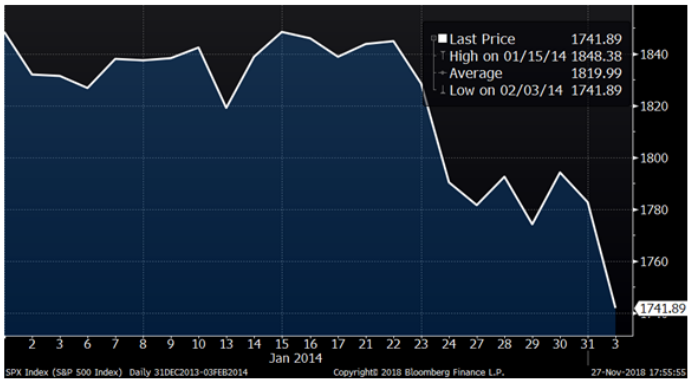
2014 "TAPER TANTRUM" REALITY

In January 2014, the Federal Reserve reduced by $10 billion to $75 billion its monthly additions to its holdings of mortgage-backed and longer-term Treasury securities. This "tapering" coincided with a 5.8% five-week dip in the S&P.



Yet, by the end of the year, the S&P 500 had recouped those losses and then some, rising 11.4% for the full-year 2014, even though Janet Yellen's Fed actually "tapered" those bond additions all the way to zero by October 2014.

There can be no guarantee that the past is prologue, but even with a Fed tapering and ultimate hiking of the Federal Funds rate,…

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

…we think interest rates will remain low by historical standards and that equities will continue to be very attractive on a relative basis,…

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INTEREST RATES VERY SUPPORTIVE OF STOCKS

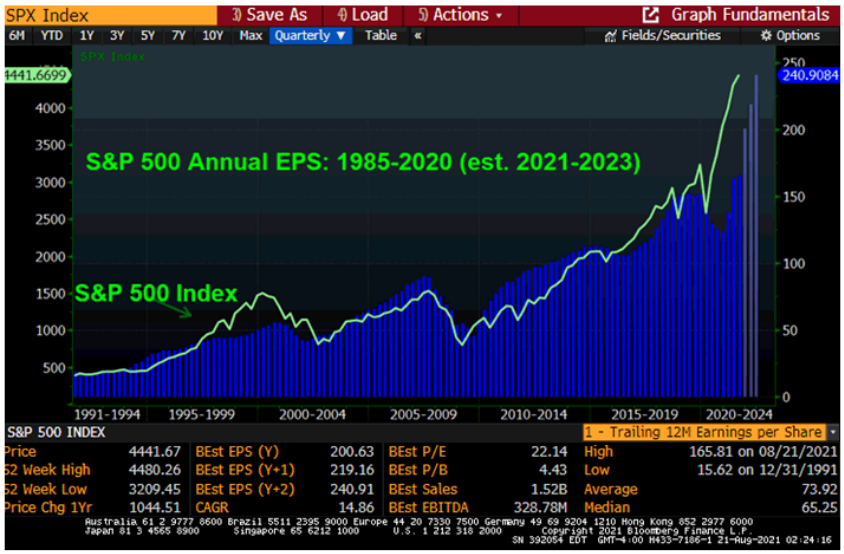
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (3.73% vs. 1.26% 10-Year) and S&P 500 dividend yield of 1.32%.

…while corporate profits should continue to show excellent growth.

THE PRUDENT SPECULATOR

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

Q2 2021 earnings reporting season has been terrific 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	$57.20	$217.52
9/30/2022	$55.27	$210.86
6/30/2022	$53.83	$204.10
3/31/2022	$51.22	$202.37
12/31/2021	$50.54	$198.56
9/30/2021	$48.51	$186.20
6/30/2021	$52.10	$175.59
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 8.19.21

Of course, we are braced for more downside volatility, especially as we have the two scariest months – September and October – left to go before the start of the seasonally favorable November to April period. But we like that our preferred gauge of sentiment on Main Street (a contrarian indicator) saw a good-sized rise in Bearishness last week,…

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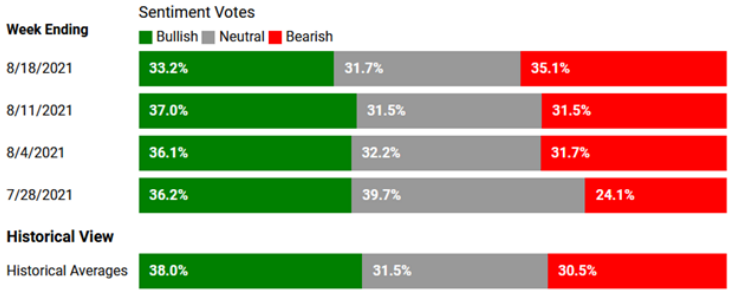
AAII SENTIMENT – BEARISHNESS RISES & BULLISHNESS FALLS

AAII Investor Sentiment Survey

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



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.00										
BELOW	-54.0	8.0	905	0.27%	0.23%	1.26%	1.13%	3.67%	3.29%	7.21%	6.46%
ABOVE	8.1	62.9	870	0.17%	0.15%	0.51%	0.42%	1.93%	1.67%	4.49%	4.01%
	Ten Groupings of 1775 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	178	0.33%	0.29%	1.50%	1.40%	3.29%	2.89%	7.12%	6.48%
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	0.04%	0.01%	0.65%	0.55%	2.43%	2.18%	4.69%	4.17%
6	8.1	12.2	160	0.11%	0.09%	0.36%	0.23%	1.55%	1.31%	4.57%	4.07%
7	12.2	16.6	177	0.21%	0.19%	0.75%	0.66%	2.48%	2.23%	5.13%	4.70%
8	16.6	22.0	183	0.16%	0.14%	0.72%	0.65%	2.06%	1.79%	5.99%	5.57%
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 8.19.21. 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 -1.9-point Bull-Bear spread is well below par and in the 3rd decile of the historical figures.

…and that Extreme Fear is the current emotion on a real-time metric,…

FEAR & GREED INDEX…POINTING TO EXTREME FEAR

Not surprisingly, with the market pulling back last week, folks became much less optimistic, even as the major averages are still near all-time highs. The *CNNMoney* Fear & Greed Index is very much tilted toward pessimism, with Extreme Fear readings for Stock Price Breadth, Stock Price Strength and Put and Call Options, as well as a Fear score for Safe Haven Demand.

…while more mutual and exchange traded fund dollars flowed into the perceived safety of fixed income in the latest week.

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	8/11/2021	8/4/2021	7/28/2021	7/21/2021	7/14/2021
Total Equity	4,747	7,910	7,087	1,257	7,676
Domestic	762	-4,019	2,241	-3,356	1,283
World	3,985	11,929	4,846	4,613	6,394
Hybrid	947	308	381	1,148	402
Total Bond	14,098	7,875	12,918	2,711	5,883
Taxable	11,375	5,647	9,657	372	2,441
Municipal	2,724	2,228	3,261	2,339	3,442
Commodities	113	247	-77	-822	-592
Total	19,906	16,341	20,309	4,294	13,369

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 near 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**

To be sure, we respect that the major market averages are still near all-time highs, while numerous stocks are richly priced, overvalued or impossible-to-value. But, as individual stock pickers, we can avoid the expensive names and construct portfolios with very generous income streams.

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	15.8	13.8	1.2	2.5	2.2
ValuePlus	16.9	13.9	1.5	2.4	2.0
Dividend Income	15.2	13.7	1.1	2.5	2.6
Focused Dividend Income	15.8	14.0	1.2	2.5	2.5
Focused ValuePlus	15.8	14.8	1.6	2.9	2.1
Small-Mid Dividend Value	12.8	11.8	0.7	1.7	2.3
Russell 3000	29.6	22.9	2.8	4.3	1.3
Russell 3000 Growth	41.8	32.3	4.9	12.6	0.7
Russell 3000 Value	22.6	17.4	1.9	2.5	1.9
Russell 1000	27.6	22.6	3.0	4.5	1.3
Russell 1000 Growth	39.0	31.4	5.4	13.7	0.7
Russell 1000 Value	21.0	17.3	2.0	2.6	1.9
S&P 500 Index	26.6	22.0	3.1	4.6	1.3
S&P 500 Growth Index	34.3	28.8	5.7	10.8	0.7
S&P 500 Value Index	21.1	17.2	2.0	2.8	2.1
S&P 500 Pure Value Index	12.8	10.4	0.8	1.3	2.4

As of 08.20.21. 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.

Yes, we must accept that we are always at risk of a downturn, but we think those of us who are long-term-oriented investors can have fears mitigated by looking at the historical odds of losing money versus the length of the holding period.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	712	416	63.1%
3 Months	765	361	67.9%
6 Months	798	325	71.1%
1 Year	814	303	72.9%
2 Year	921	184	83.3%
3 Year	954	139	87.3%
5 Year	958	111	89.6%
7 Year	1009	36	96.6%
10 Year	975	34	96.6%
15 Year	949	0	100.0%
20 Year	889	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	717	411	63.6%
3 Months	783	343	69.5%
6 Months	812	311	72.3%
1 Year	847	270	75.8%
2 Year	942	163	85.2%
3 Year	934	159	85.5%
5 Year	983	86	92.0%
7 Year	1003	42	96.0%
10 Year	974	35	96.5%
15 Year	949	0	100.0%
20 Year	889	0	100.0%

From 07.31.27 through 06.30.21. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

It is fascinating that many don't pay much attention to history as we recently saw a prominent journalist use phrases like "substantial risk of losing money" and "a shot at positive returns" regarding stock ownership. Clearly, with the caveat that past performance is no guarantee of future returns, there is far less risk of losing money and a much better shot at positive returns for those who remember that the only problem with market timing is getting the timing right.

The New York Times

TheUpshot

This Is a Terrible Time for Savers

In an upside-down world of financial markets, expected returns after inflation are at record lows.

By Neil Irwin

Published Aug. 9, 2021 Updated Aug. 13, 2021

If you are saving money for the future, one way or another you had best be prepared to lose some of it.

That is the implication of today's upside-down world in the financial markets. The combination of high inflation, strong economic growth and very low interest rates has meant that "real" interest rates — what you can earn on your money after accounting for inflation — are lower than they have been in modern times.

This outcome is a result of a glut of global savings and the Federal Reserve's extraordinary efforts to bring the economy back to health. And it means the choice for a saver is stark. You can invest in safe assets and accept a high likelihood that you will get back less, in terms of purchasing power, than you put in. Or you can invest in risky assets in which you have a shot at positive returns but also a substantial risk of losing money should market sentiment turn negative.

"For people who are risk averse, they have to get used to the worst of all possible worlds, which is watching their little pool of capital go down in real terms year after year after year," said Sonal Desai, the chief investment officer of Franklin Templeton Fixed Income.

Inflation outpacing interest rates is good news in certain circumstances: if you are able to borrow money at a fixed rate, for example, and use it to make an investment that will provide something of value over time, whether a house, farmland or equipment for a business.

But consider the options if you are not in that position, and instead are saving money that you expect to need five years down the road — for the down payment on a house, or a child's college expenses.

You could keep the money in cash, such as through a bank deposit or money market mutual fund. Short-term interest rates are at zero or very close to it, depending on the specific place the money is parked, and Federal Reserve officials expect to keep rates there for perhaps another couple of years. Inflation has been at 4 percent to 5 percent over the last year, and many forecasters expect it to come down slowly.

Or, you could buy a safe Treasury bond that matures in five years. The annual yield on that bond, as of Friday, was 0.77 percent. That means that if annual inflation is above that, the buying power of your savings will diminish over time. The highest-yielding federally insured bank certificates of deposit over that span offer only a little bit more, just over 1 percent.

Alas, the assertion from that same article, "You can invest in safe assets and accept a high likelihood that you will get back less, in terms of purchasing power, than you put in," would seem to be spot on, yet more than $16 trillion rests (rots?) in negative yielding government debt around the world,…

THE PRUDENT SPECULATOR

NEGATIVE YIELDING GOVERNMENT BONDS

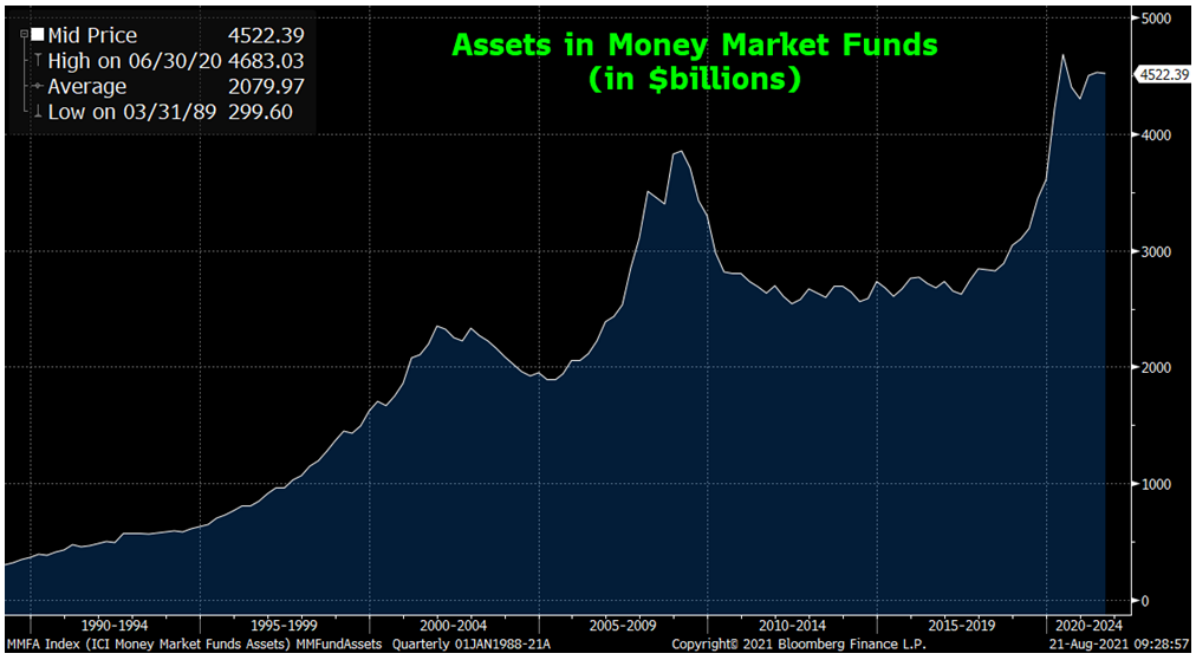
Incredibly, investors around the world continue to love government debt, despite losses this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.

…and more than $4.5 trillion is hibernating in money market funds,…

THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have seldom been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.

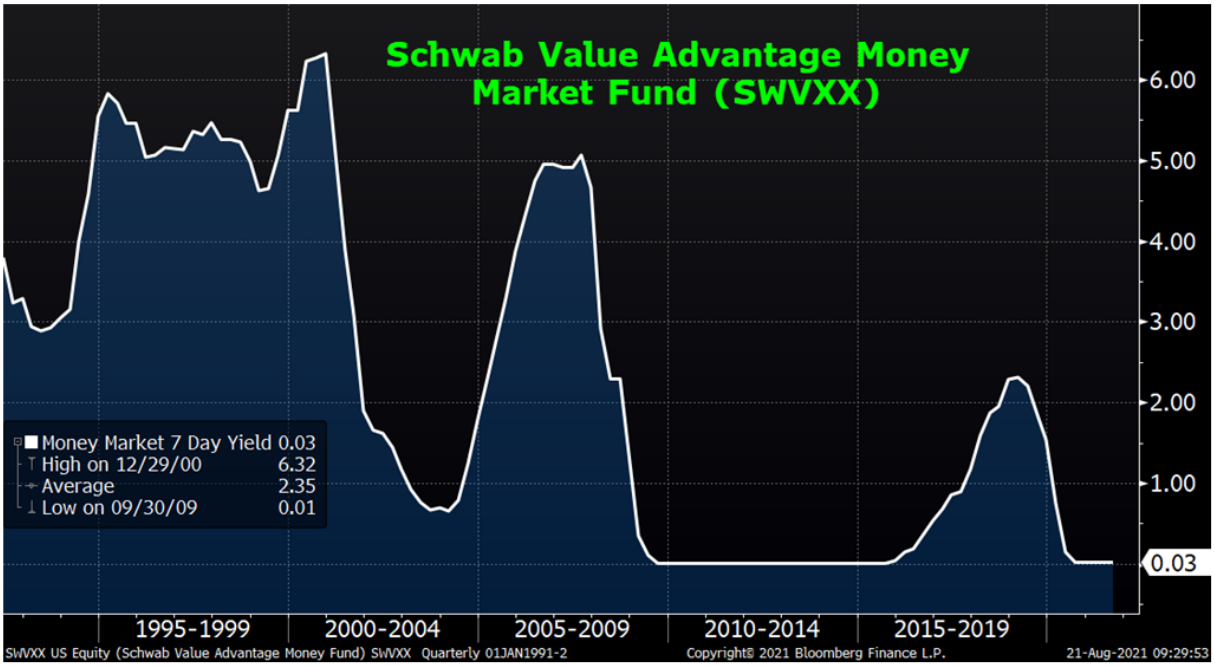


…where the current yield will allow money to double in only 2,311 years.

THE PRUDENT SPECULATOR

MONEY MARKET FUND YIELDS OVER TIME

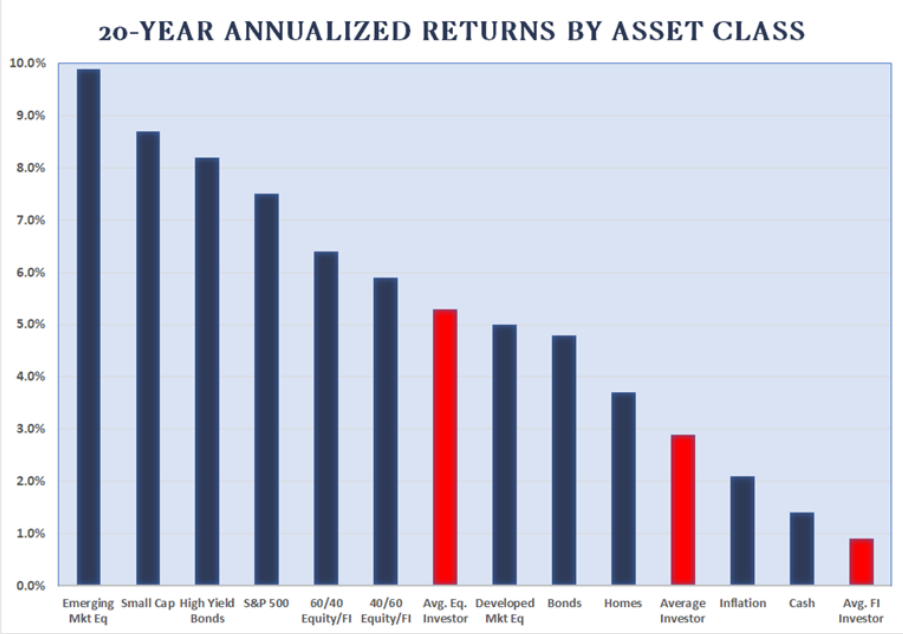
The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.03% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2007 and 2000.



Yes, equities will always be a risky (volatile) asset class, but as Lao Tsu said, “If you do not change direction, you may end up where you are heading”

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT



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

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

Stock Updates

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

Jason Clark, Chris Quigley and Zack Tart look at 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.

Discount store and superstore giant **Walmart** (WMT – $151.45) reported EPS of $1.78 in fiscal Q2, 13% ahead of the $1.57 estimated by analysts. Total revenue grew 0.6% on a constant currency basis to $138.6 billion, negatively affected by approximately $8.9 billion related to divestitures in the International segment. Sam's Club comparable sales and eCommerce sales grew 7.7% and 27%, respectively, while membership income for Walmart+ increased 12.2% with member count reaching an all-time high. Management has repurchased $5.2 billion worth of stock year to date, representing around 25% of the $20 billion authorization announced earlier

this year. Since sliding to a year-low in early March, shares have rebounded to trade within striking distance of their all-time closing high of $152.79 reached at the end of last November.

WMT CEO Doug McMillon commented, “We had another strong quarter in every part of our business. Our global eCommerce sales are on track to reach $75 billion by the end of the year, further strengthening our position as a leader in omnichannel. We grew market share in U.S. grocery, added thousands of new sellers to our marketplace, rapidly grew advertising businesses around the world, and we’re finding innovative ways to commercialize our data and build technology. We have a unique ecosystem of products and services designed to serve customers in broader, deeper ways, and we’re grateful to our associates for making it all happen.” Happily, management saw fit to boost its outlook for the full fiscal year.

THE PRUDENT SPECULATOR

WMT – RAISING FULL-YEAR GUIDANCE

Fiscal 2022 Q3 and full-year guidance

The following guidance reflects the company’s updated expectations for Q3 and fiscal year 2022 and is provided on a non-GAAP basis as the company cannot predict certain elements which are included in reported GAAP results, including the impact of foreign exchange translation and externally adjusted items. Prior year results are on an adjusted basis. The company’s updated guidance assumes continued strength in the U.S. economy and no significant additional government stimulus for the remainder of the year.

Metric	FY22 Guidance at 5.18.21	New FY22 Guidance
Consolidated net sales	Decline low single-digits in constant currency • Excluding divestitures[1], consolidated net sales growth up low-to-mid single-digits	Slightly positive in constant currency • Excluding divestitures[1], consolidated net sales growth up 6% to 7%, or more than $30 billion
Comp sales growth	• Walmart U.S., up low single-digits, ex. fuel • Sam’s Club, up low single-digits, ex. fuel and tobacco	• Walmart U.S., up 5% to 6%, ex. fuel • Sam’s Club, up 7.5% to 8.5%, ex. fuel and tobacco
Walmart International net sales	Decline 20%-25% in constant currency due to divestitures[1] • Increase mid single-digits, excluding divestitures[1]	Decline 21.5% to 22.5% in constant currency due to divestitures[1] • Increase 7% to 8%, excluding divestitures[1]
Consolidated expense leverage	Maintain rate, or slightly leverage	Slightly leverage
Consolidated operating income	Increase mid single-digits in constant currency • Increase high single-digits, excluding divestitures[1], in constant currency	Increase 9% to 11.5% in constant currency • Increase 11.5% to 14%, excluding divestitures[1], in constant currency
Walmart U.S. operating income	Increase high single-digits	Increase 11% to 13.5%
Effective tax rate	24.5% to 25.5%	No change
EPS	Increase high single-digits • Increase low double-digits, excluding divestitures[1]	$6.20 to $6.35
Capital expenditures	Around $14 billion	No change

Metric		Q3 FY22 Guidance
Comp sales growth		Walmart U.S., up 6% - 7%, ex. fuel
EPS		$1.30 to $1.40

3

[1] We completed the sales of Walmart Argentina in November 2020, Asda in February 2021 and Seiyu in March 2021.

There is no doubt that competition is fierce within retail, but we continue to be impressed by Walmart’s transformation and execution to build a customer-centric seamless omni-channel ecosystem. This includes integration of its eCommerce, grocery and general merchandising businesses, as well as the continued rollout of various ways for guests to shop. And, although the Indian government has threatened to fine Flipkart on suspicion of foreign investment rule violations, we continue to think these investments (along with JD.com), and its foray into service sectors like Health Care, FinTech and others, lengthen the retailer’s runway for growth and

diversify revenue. WMT continues to generate strong free cash flow, which underpins its generous capital returns programs. With the continued operational momentum, we have boosted our Target Price for WMT to $175.

General merchandise discount store chain **Target** (TGT – $253.40) reported fiscal Q2 EPS of $3.64 (vs. $3.48 est.) on revenue of $24.83 billion (vs. $24.51 billion est.). Comparable store sales increased 8.9% (vs. 8.2% est.), while the 30.4% gross margin came in 0.1% lower than the consensus estimate. Target's digital sales accounted for approximately 17% of revenue. The board approved a new $15 billion share buyback program and expects "high single digit" comparable sales growth in the back half of the fiscal year.

CEO Brian Cornell commented on the results, "Guests have emerged from a year in which digital was the primary growth driver, and they're now returning to our stores in droves. As a result, the majority of our second quarter growth was driven by the stores channel, where comps grew 8.7% on top of 10.9% a year ago. In addition, traffic accounted for more than 100% of our second quarter growth, in contrast to a year ago when guests were limiting time out of their homes and the bulk of our growth was coming from bigger transactions. Comparable digital sales grew 10% in the second quarter, building on the record growth of 195% last year. The digital channel continues to be led by our same-day services, in-store pickup, Drive Up and Shipt, which together grew 55% this year on top of more than 270% last year. Given their rapid expansion, same-day services now account for well over half of our digital sales. Among those same-day options, Drive Up has quickly grown to be the largest, accounting for more sales than pickup and Shipt combined. To put it in dollar terms, over the last 2 years, second quarter sales through Drive Up alone have increased by nearly $1.4 billion. And for the spring season, they've expanded by double that amount."

Mr. Cornell concluded, "In terms of our business, the last 18 months have proven, beyond a doubt, the flexibility and resilience of both our team and our business model. And while sales in stores have been soaring so far this year, our operations and team have demonstrated how they can pivot seamlessly between stores and digital commerce based on how our guests choose to shop. I also want to emphasize that as proud as we are of what we've already accomplished, we see many more productive opportunities to invest in continued growth. And I also want to acknowledge the continued high level of execution we've been seeing across all of our teams. As John will outline in more detail, despite unusually high volatility for well over a year now, the Target team has been consistently setting the industry standard in terms of execution despite multiple challenges in the external environment. Our team continues to embrace every challenge as one aligned Target team, taking care of each other as they focus on serving our guests. I am truly inspired by their work and grateful to share the outstanding performance they're delivering quarter after quarter, year after year."

Long before the pandemic, Target made big changes on the heels of a disastrous expansion into Canada. The company added small-format stores, shifted to a ship-from-store model to make retail stores into miniature distribution centers and made big investments in its mobile phone app. While the pandemic caused significant challenges related to the supply chain, the investments in the core business paid off handsomely and we think folks have gotten used to some of the convenience (such as parking lot pickup and same-day shipping). We believe the

improvements when considered as a whole put Target in the #1 spot for big box retailers in the country and we expect the company to continue to benefit from the updates. While Target has continued to return cash to shareholders in large quantities via repurchases and buybacks, the company is also remodeling stores (which results in more spending per customer and more visits) and is collaborating with brands such as Ulta Beauty to drive traffic. Target-owned brands such as Cat & Jack have proven popular with consumers looking for value, while premium products from the likes of Apple and Disney draw higher-end customers. Target raised its quarterly dividend to $0.90 per share, resulting in a yield of 1.4%. The company's valuation metrics are still reasonable, including a forward P/E near 20 and our Target Price stands at $275.

Despite a nasty and apparently very misguided selloff on Tuesday following Wall Street disappointment with the quarterly results and guidance from competitor Home Depot, shares of **Lowe's Cos** (LOW – $208.21) jumped more than 9% last week, pushing the year-to-date gain to 30%. The catalyst for the home improvement retailer was the release of solid fiscal 2022 Q2 financial results. Lowe's said that it realized revenue of $27.57 billion, versus the consensus analyst estimate of $26.87 billion, and adjusted EPS of $4.25, almost 6% above the consensus forecast of $4.01. With unbelievably strong comparable sales growth last year, it wasn't overly surprising to see the reading for this quarter come in at -1.6%, which was actually better than the consensus analyst view of -2.1%. Areas of above-average growth were sales to Pro customers (+21%), Installation Services (+10%) and online sales, whiles sales to do-it-yourselfers were below average. An operating margin of 15.3% for the quarter is the best quarterly reading for LOW on record.

CEO Marvin R. Ellison commented, "Our strong results this quarter demonstrate that our Total Home strategy is working, with U.S. sales comps up 32% on a two-year basis. In the quarter, we drove 21% growth in Pro, 10% growth in Installation Services and strong comps across Décor product categories. On Lowes.com, sales grew 7% on top of 135% growth last year. We also delivered significant operating margin expansion through our disciplined focus on driving productivity across the company. I would like to thank our front-line associates for their continued dedication to serving our customers and supporting safety in our stores. Looking forward, I am confident in the positive outlook for our industry, and our ability to drive operating margin expansion and market share gains."

We continue to be pleased with LOW's improved execution and margin expansion, and believe the company has more opportunity on which to capitalize. The consistency and strength of LOW's execution in a challenging operating environment throughout COVID-19 is evidence of the company's transformation efforts in recent years, and the strong cash flow is allowing for further investment in long-term initiatives, including winning Pros back from Home Depot (and others). It is also worth noting that its shares still trade at a discount to those of Home Depot. With continued operational momentum, we wouldn't be surprised to see LOW receive more of a premium multiple as it benefits on the top and bottom line from the continued surge in domestic home sales, and the home improvement wave driven by people choosing to be at home more, not to mention the movement of folks from downtown cities to suburbs. We have raised our Target Price for LOW to $245.

Shares of **Foot Locker** (FL – $58.34) jumped more than 7% on Friday after the footwear and apparel retailer turned in adjusted EPS of $2.21, more than 115% higher than the consensus analyst estimate of $1.01. Revenue for the period was $2.27 billion, almost 9% better than the expected $2.09 billion. During the quarter, in-store foot traffic was up by a double-digit percentage, and footwear sales were up double digits even compared to the same period in 2019 (a strong comparison given how badly Q2 of 2020 was impacted by the pandemic). FL management said it now sees full-year adjusted EPS coming in between $7.00 and $7.15, and that the second half promotion environment should be "favorable" for the company. The company's loyalty program (FLX) saw membership rise 25% in the most recent quarter and now has 25 million members. It was also recently announced that Foot Locker would be increasing its dividend by 50% from $0.20 to $0.30 per quarter.

CEO Richard Johnson elaborated, "Our strong performance this quarter reflects the health of our category, the deep engagement we have with our customers, and the strategic nature of our relationships with our vendor partners. This quarter reflects strong results in our women's and kids' footwear business along with broad demand for our apparel and accessories offerings, which combined with more limited promotional activity, led to the outstanding top and bottom-line results."

CFO Andrew Page added, "Many of the trends we saw in the first quarter continued into the second quarter, with the combination of robust demand and fresh and lean inventory driving meaningfully lower levels of promotional activity and resulting in a gross margin of 35.1%, compared to the 25.9% in the prior year period."

While shares of Foot Locker are up 44% this year, they are only trading with a NTM earnings multiple below 10, and we believe the company has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think that longer term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. Our Target Price for FL has run ahead to $86.

Department store chain **Kohl's** (KSS – $57.24) announced last week that it earned $2.48 in fiscal Q2 2022 on $4.22 billion of sales. The bottom-line result was vastly better than the $1.20 analysts had expected, while sales were ahead of the $4.01 billion estimate. Encouraged by Kohl's strong execution and raised annual guidance, shares gained more than 10%.

CEO Michelle Gass commented, "Our record Q2 earnings were driven by strong sales growth, significant gross margin expansion and disciplined expense management, exceeded our expectations. Our strategy is working, and the favorable industry environment has only amplified our performance. Sales increased 31% to last year and were up to the same period in 2019. From a channel perspective, in Q2, improvement in our store sales drove the majority of the total sales upside in the quarter…Digital sales remained strong and increased 35% compared to the same period in 2019. And as expected, we're down to last year's heightened level that benefited from

store closures. As a percentage of total sales, digital was 26%, down from last year's 41%, but up from 20% in 2019. From a category perspective, we saw the greatest growth in Men's, Accessories and Women's relative to last year, and Men's, Home and Footwear were the strongest on a two-year basis. Active continued to be the strongest area of customer demand with growth across both apparel and footwear. From a profitability perspective, we achieved the highest operating margin in a decade as we maintained our intense focus on inventory management, further optimized our pricing and promotional strategies and managed expenses with discipline."

Ms. Gass offered thoughts on the road ahead, "We're now in the process of opening the first of our 200 stores planned for 2021. We opened a few earlier this month and have major waves of openings that start tomorrow and continue through October. We will then open 400 next year and reach at least 850 by 2023. Both organizations are very proud of the launch, and I encourage you to visit one of these Sephora stores. They are absolutely beautiful and truly showcase the power of the Kohl's transformation. I want to thank both our team and the Sephora team for their relentless efforts over the past 8 months. We believe that this collaboration will quickly become one of the industry's most differentiated and largest partnerships."

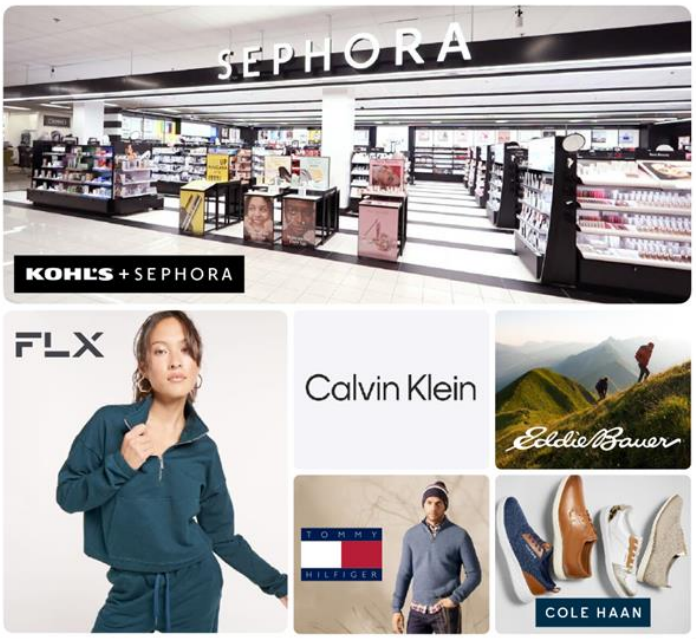
CFO Jill Timm added, "We continue to be thoughtful and prudent in setting our financial outlook for the balance of the year, considering the uncertainty around consumer spending given the Delta variant situation as well as the supply chain challenges and wage headwinds. Based on this, we are guiding the year as follows: net sales to increase in the low 20% range, up from our prior expectation of a mid- to high teens increase; operating margin to be in the range of 7.4% to 7.6%, up from our prior expectation of 5.7% to 6.1%, this positions us to achieve our 2023 operating margin goal of 7% to 8% this year; and EPS to be in the range of $5.80 to $6.10, excluding nonrecurring charges, up from our prior guidance of $3.80 to $4.20. This guidance represents an all-time high EPS for our company."

Updated 2021 Outlook

Metric	Full Year Guidance
Net Sales	**Low twenties percent increase** versus 2020 *From a mid-to-high teens percent increase*
Operating Margin	**7.4% to 7.6%** *From 5.7% to 6.1%*
Adjusted EPS*	**$5.80 to $6.10** *From $3.80 to $4.20*

Capital Allocation Strategy

- **Capex:** $600 million to $650 million
- **Dividend:** $0.25 quarterly dividend payable on September 22, 2021
- **Share Repurchase Program:** $500 million to $700 million, up from $200 million to $300 million



KOHL'S * Excludes any non-recurring charges. 10

Kohl's expects to buy back between $500 million and $700 million worth of stock in 2021, which is a substantial bounce back from the management team battening down the hatches just over a year ago in the early innings of the pandemic. We believe the government's ongoing stimulus efforts have helped KSS, while consumers seem to be resuming a somewhat-normal life, even in areas where the Delta variant is spreading at dangerous rates. KSS shares are up more than 40% this year, but the valuation is still reasonable (including a forward P/E under 11) and the dividend yield is around 1.7% with room to grow thanks to a strong balance sheet and quality cash flow. Our Target Price for KSS has been lifted to $75.

Fears of a surging Delta COVID-19 variant sent shares of **Tapestry** (TPR – $40.58) tumbling last week, even as the luxury fashion concern produced very good financial results in fiscal Q4. Tapestry earned 0.74 per share (versus the $0.68 est.) on $1.6 billion of revenue (beating the pre-pandemic comp from 2019). Tapestry continues on its road to digitization to drive its product offering, significantly lowering SKU counts by approximately 45% across brands. The ecommerce channel reached approximately $1.6 billion in revenue, nearly doubling versus the prior year and over $1 billion ahead of pre-pandemic levels, fueled by the acquisition of nearly 4 million new customers in North America alone. The board approved the reinstatement of TPR's capital return programs, with a plan to share $750 million with holders through both dividend and stock repurchases in fiscal year '22.

CEO Joanne Crevoiserat commented, "Coach is both a remarkable 80-year history and a bright future. We are confident that the deliberate actions we've taken to improve the foundation of the brand, including the realization of higher AUR and stronger margins, are sustainable over the long term as revenue continues to inflect. We're continuing to improve on the momentum we've built to drive market share gains at sustainably high margins in fiscal '22 and beyond. Overall, we are pleased with Kate Spade's execution and the traction we gained with consumers in fiscal '21, including AUR improvement and strong customer engagement. This progress is reflected in Kate Spade's outperformance versus internal expectations, reinforcing our confidence in the brand's potential. Kate Spade is a unique yet universal brand, and our teams are galvanized around driving our clear strategy. We continue to believe in the significant runway ahead in our ability to achieve $2 billion in revenue and enhanced profitability in the future."

Regarding Stuart Weitzman, she continued, "In fiscal '22, our overarching goal is to return to profitability. We will recruit and engage customers through product that sparks desire with a focus on must-have launches featuring icons, key items and capsule collections as well as (inaudible); drive brand heat with a digital-first drumbeat of relevant romantic storytelling; fuel continued growth in China, including an expanded footprint and further investment in digital; elevate the omnichannel customer journey, including delivering a best-in-class digital experience; and accelerate wholesale partnerships with an expanded footprint in key accounts globally. Overall, I'm pleased with the progress we've made at Stuart Weitzman, and we remain focused on restoring the brand's profitability."

While fashion and accessory markets remain intensely competitive, we continue to think the firm's brands (Coach in particular) boast significant appeal for luxury consumers. And despite turnover of upper management in the past year, we think Tapestry is in good hands with Ms. Crevoiserat and new CFO Scott Roe, who brings a wealth of experience from VF Corp. While shares have rallied mightily off of the pandemic lows and recent quarters present tough comps going forward, the stock still trades well below the market multiple. With the reinstated dividend and a yield of 2.5%, our Target Price for TPR has been raised to $58.

Despite turning in terrific quarterly results on Friday and hiking its full-year forecasts, shares of **Deere & Co.** (DE – $351.43) slid another 2% as investors honed in on management's comments regarding the tension in the company's supply chain. For fiscal Q3, the agricultural equipment titan reported earnings per share of $5.25, more than 15% greater than the average forecast of $4.56. The company states that agricultural fundamentals continued to be solid year-to-date, and results from its 2022 early order programs indicate demand remains strong heading into the next fiscal year. Robust fundamentals for construction and forestry equipment continued into Q3, leading to improved levels of profitability and a heightened outlook for the rest of this year. Accordingly, management has raised its guidance and now looks for earnings between $5.7 billion and $5.9 billion in fiscal 2021, up from a range of $5.3 billion and $5.7 billion projected last May.

Deere CEO John May commented, "Our strong results, driven by essentially all product categories, are a testament to the exceptional efforts of our employees and dealers to keep our factories running and customers served while enduring significant supply-chain pressures. We also made strategic investments in the quarter aligned with our smart industrial strategy. They

will further our efforts to help our customers achieve improved profitability, productivity, and sustainability through the effective use of technology."

With possibly the strongest brand in agriculture, Deere continues to operate at a very high level. We think the firm will continue to benefit from a sustainable equipment replacement cycle and precision ag as technology advancements support and drive pricing. Additionally, the company should see gains in aftermarket as retrofitting expands. Shares have run markedly over the past year, but we continue to appreciate the diversification of its construction products, while a strong appetite for U.S. infrastructure spending should provide a boost in the coming years. Our Target Price on DE shares has been elevated to $453.

Cisco Systems (CSCO – $58.22) earned $0.84 per share in fiscal Q4 2021 (vs. $0.83 est.). The communications equipment firm had total revenue of $13.13 billion, versus the $13.02 billion estimate. Shares have gained more than 5% since the release, despite some after-hours trading volatility following the announcement, as the company beat analyst expectations in its two largest categories. Cisco's Infrastructure Platforms revenue was $7.55 billion (vs. $7.11 billion est.) and Product revenue was $9.72 billion (vs. $9.47 billion est.), while Applications ($1.34 billion vs. $1.46 billion est.), Security ($823 million vs. $912 million est.) and Service ($3.41 billion vs. $3.56 billion est.) trailed analyst expectations. The company's gross margin was 65.6%, compared with the consensus estimate of 64.8%.

CEO Chuck Robbins said, "We had an outstanding Q4 performance and fiscal year revenue, reflecting strength across our portfolio, customer segments and geographies. Our product order growth was the highest we've seen in over a decade, and we're continuing to see strong customer reception to the accelerated investments in software and subscriptions. This great momentum is reaffirming our position as the worldwide leader in technology that powers the Internet and the digital enterprise. As I think about our achievements over the past year, 3 things stand out to me. First, the exceptional execution of our teams. We achieved these results through the extraordinary efforts of our leadership team, our partners, and most importantly, our people around the world who operated with incredible speed and at an unprecedented scale to deliver this growth. Second, our transformation and strategic investments are paying off. The benefits of our shift to software and subscriptions are clear, and they are helping both Cisco and our customers move with greater speed and agility. And third, the power of our portfolio. The groundbreaking innovation we are investing in today will serve as the foundation for our customers' futures."

Mr. Robbins continued, "Our unique strengths improvement strategy give us the confidence to move at a more accelerated pace. You will see us continue to invest in our key growth areas and technology shifts like hybrid cloud, hybrid work, 5G, WiFi 6, Edge, security and cloud-native architectures to extend our technology leadership positions. You will also see us deliver even more strategic offers to enable our customers to thrive in a cloud-first digital world. These include full stack observability to improve their digital experiences by providing visibility and insights across their entire technology stack and Secure Access Service Edge, or SASE, designed to enable seamless secure access to applications anywhere their users work. Given the momentum we're seeing in our business, we have more conviction than ever that we are

investing in the right areas, and we'll continue to extend our competitive advantages and drive growth."

Mr. Robbins concluded, "Looking ahead, we expect the supply challenges and cost impacts to continue through at least the first half of our fiscal year and potentially into the second half. In summary, demand for our technology is very strong, and our strategy is more relevant than ever. This allows us to deliver greater value to our customers, partners and communities as we all adapt to new ways of living and working. I am very encouraged by the recovery trajectory across the board and with our momentum. I am confident in our strategy and investments."

Cisco expects revenue growth between 5% and 7% for fiscal 2022, which should result in adjusted EPS between $3.38 and $3.45. In our view, IT spending will remain strong, and we believe CSCO should benefit as the world emerges from the pandemic. Unfortunately, Cisco is not immune to the pricing and supply chain challenges that are dragging on the industry recently, and the company thinks those headwinds will stick around at least through the end of this calendar year. While 2020 was a bit of a struggle for CSCO, shares are up more 30% this year, which we believe is a result of investor enthusiasm, an inexpensive valuation and solid post-pandemic earnings growth projections. CSCO earnings didn't grow in fiscal 2021, but analysts expect at least 4% EPS growth in each of the next three fiscal years. Cisco sports a forward P/E ratio near 17 and a 2.6% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been bumped up to $66.