Market Commentary Monday, August 30, 2021

August 29, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Sold SFL
TPS 659 – September Newsletter Coming Thursday Evening
Week in Review – Sizable Rebound, Despite Afghanistan, COVID-19, etc….
Econ News – Mixed Numbers; Q3 GDP Growth Outlook Tempered a Bit
Powell Speaks – Fed Chair in Jackson Hole
Interest Rates – Stocks Very Attractively Valued on a Relative Basis
Corporate Profits – Terrific Q2 Numbers and Very Favorable Outlook for H2 2021 and 2022
Stock News – Updates on JWN, NTAP, STX, BIG, SJM & MDT

Market Review

A little housekeeping prior to this week's missive. As indicated on our August 19 *Sales Alert*, we sold 1,675 and 400 shares of **SFL Corp Ltd** (aka Ship Finance) (SFL – $8.07) respectively held in TPS Portfolio and Buckingham Portfolio at $7.705 on Monday, August 23. We will also use that price to close out the 1,082 and 2,476 SFL shares respectively held in our hypothetical portfolios, Millennium Portfolio and PruFolio.

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Work shortly will be commencing on the September edition of *The Prudent Speculator*. In addition to our quarterly Earnings Scorecard feature, we will have at least one first-time recommendation. If all goes according to plan, we expect to send out TPS 659 the evening of Thursday, September 2.

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%	112.9%	990	27	3.4	3/23/2020	8/27/2021
17.5%	67.9%	579	39	2.3	3/23/2020	8/27/2021
15.0%	66.5%	563	45	2.0	3/23/2020	8/27/2021
12.5%	44.9%	338	72	1.3	3/23/2020	8/27/2021
10.0%	35.3%	247	98	0.9	3/23/2020	8/27/2021
7.5%	23.8%	149	157	0.6	9/23/2020	8/27/2021
5.0%	14.8%	73	306	0.3	10/30/2020	8/27/2021

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 8.27.21. 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

That was the initial paragraph of last week's *Market Review*, which discussed the pullback seen the prior five days in the equity markets. And it applies just as well today as we look back at the latest five days of trading, though what a difference a week can make. Despite two deadly terrorist attacks in Kabul that left scores dead, including 13 U.S. service members, and many fearing additional bloodshed as the August 31 deadline to withdraw U.S. forces from Afghanistan looms, the equity markets enjoyed a terrific five days, marred only by a sizable selloff on Thursday. Happily, it was also a week in which the average stock outperformed the capitalization-weighted indexes, a trend that has been seen since the major market averages hit bottom some 17 months ago.

THE PRUDENT SPECULATOR

MARKET OF STOCKS OUTPERFORMING THE STOCK MARKET

Total Returns Matrix

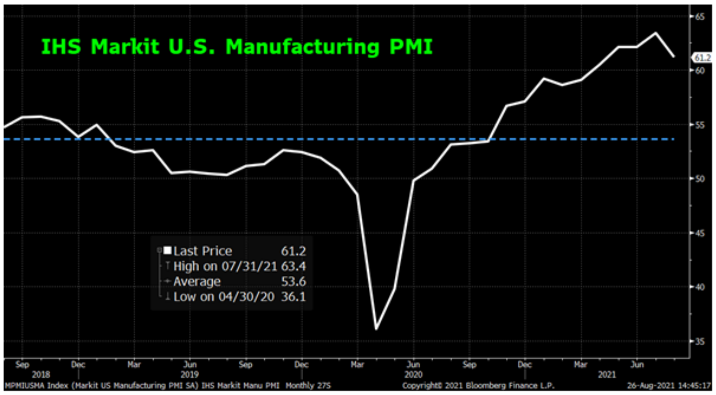
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Last 12 Months	Since 3.23.20	Name
0.17	-2.37	0.74	2.74	1.19	9.79	Bloomberg Barclays Global-Aggregate Bond
-0.05	-0.70	0.41	-0.08	0.21	5.65	Bloomberg Barclays US Aggregate Bond
0.98	17.26	35.99	41.01	26.85	96.31	Dow Jones Industrial Average
2.02	17.60	37.97	44.75	31.76	98.48	New York Stock Exchange Composite
2.30	19.26	38.44	44.49	29.41	122.14	Russell 3000 Growth
1.74	21.05	43.38	51.91	38.10	100.41	Russell 3000 Value
2.03	20.15	40.83	48.05	33.53	112.46	Russell 3000
2.04	**23.77**	**47.51**	**58.75**	**42.97**	**123.05**	**S&P 500 Equal Weighted**
1.54	21.20	39.63	45.55	31.38	106.25	S&P 500
1.59	22.49	39.86	45.81	30.22	118.87	S&P 500 Growth
1.48	19.70	39.84	45.70	33.74	90.15	S&P 500 Value
2.98	24.47	46.01	53.30	40.24	137.02	S&P 500 Pure Growth
3.18	28.76	59.36	77.12	54.81	137.93	S&P 500 Pure Value

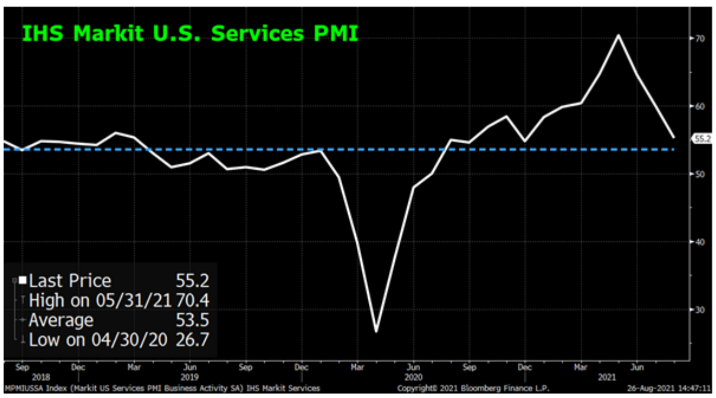
As of 08.27.21. Source Kovitz using data from Bloomberg

The move higher last week came despite some mixed numbers on the economic front. Both of the IHS Markit PMI tallies came in below projections,…

THE PRUDENT SPECULATOR

STRONG, THOUGH WEAKER-THAN-EXPECTED, AUGUST IHS MARKIT PMIS



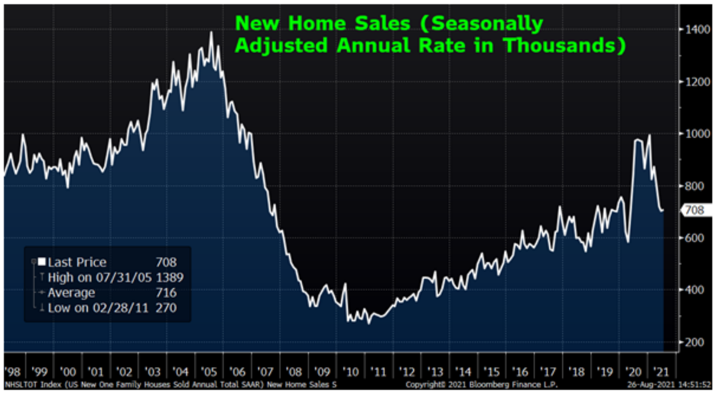


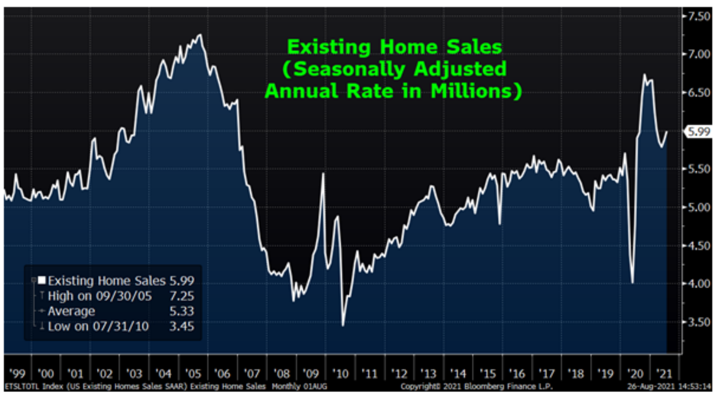
IHS Markit's U.S. PMIs for manufacturing and services in August came in at 61.2 and 55.2, respectively, both tallies down from July and below expectations. IHS stated, "Private sector companies across the U.S. signaled a further strong upturn in business activity during August, however, the pace of growth slowed to an eight-month low. Capacity pressures, material shortages and the spread of the Delta variant reportedly weighed on the output expansion."

…but figures on the health of the housing market modestly beat forecasts,…

THE PRUDENT SPECULATOR

HOUSING NUMBERS TICK BACK UP





Sales of new homes for July beat expectations, inching up 1.0% from the month prior to 708,000 units, with the biggest gain in the West. The median price for a new home rose to more than $390,000. Meanwhile, sales of existing homes rose 2.0% in July to a seasonally adjusted annual rate of 5.99 million, with the median price of $359,900 right near an all-time high and the current inventory of homes representing a very-low 2.6-month supply.

…with the latest estimate for Q3 U.S. GDP growth from the Atlanta Fed pulling back to "only" 5.1%.

THE PRUDENT SPECULATOR

EXCELLENT U.S. GDP GROWTH ESTIMATED FOR Q3

While Q1 and Q2 2021 saw an acceleration of the economic rebound, the Atlanta Fed's current projection for Q3 2021 GDP growth on an annualized basis is a very-robust 5.1%, down from 6.1% a week ago.

And speaking of the Fed, the biggest development on the economic front was Jerome H. Powell's speech on Friday in Jackson Hole, Wyoming. In *Monetary Policy in the Time of COVID*, the Fed Chair discussed the current economic situation,…

Strong policy support has fueled a vigorous but uneven recovery—one that is, in many respects, historically anomalous. In a reversal of typical patterns in a downturn, aggregate personal income rose rather than fell, and households massively shifted their spending from services to manufactured goods. Booming demand for goods and the strength and speed of the reopening have led to shortages and bottlenecks, leaving the COVID-constrained supply side unable to keep up. The result has been elevated inflation in durable goods—a sector that has experienced an annual inflation rate well below zero over the past quarter century. Labor market conditions are improving but turbulent, and the pandemic continues to threaten not only health and life, but also economic activity. Many other advanced economies are experiencing similarly unusual conditions.

…before his comments on the implications for monetary policy,…

FED CHAIR JEROME H. POWELL – JACKSON HOLE: 8.27.21

That brings me to a concluding word on the path ahead for monetary policy. The Committee remains steadfast in our oft-expressed commitment to support the economy for as long as is needed to achieve a full recovery. The changes we made last year to our Statement on Longer-Run Goals and Monetary Policy Strategy are well suited to address today's challenges.

We have said that we would continue our asset purchases at the current pace until we see substantial further progress toward our maximum employment and price stability goals, measured since last December, when we first articulated this guidance. My view is that the "substantial further progress" test has been met for inflation. There has also been clear progress toward maximum employment. At the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year. The intervening month has brought more progress in the form of a strong employment report for July, but also the further spread of the Delta variant. We will be carefully assessing incoming data and the evolving risks. Even after our asset purchases end, our elevated holdings of longer-term securities will continue to support accommodative financial conditions.

The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test. We have said that we will continue to hold the target range for the federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time. We have much ground to cover to reach maximum employment, and time will tell whether we have reached 2 percent inflation on a sustainable basis.

These are challenging times for the public we serve, as the pandemic and its unprecedented toll on health and economic activity linger. But I will end on a positive note. Before the pandemic, we all saw the extraordinary benefits that a strong labor market can deliver to our society. Despite today's challenges, the economy is on a path to just such a labor market, with high levels of employment and participation, broadly shared wage gains, and inflation running close to our price stability goal. Thank you very much.

…evidently gave equity market investors comfort that inflation will, indeed, be transitory, even as a tapering of the central bank's bond purchases remains in the cards for the not-too-distant-future, with interest rate hikes still likely in 2023.

THE PRUDENT SPECULATOR

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

Of course, nothing we have seen or heard in the last two weeks, one a bad one for stocks and one a good one, alters our view that equities remain attractively valued, even if interest rates ultimately move up somewhat,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (3.70% vs. 1.31% 10-Year) and S&P 500 dividend yield of 1.30%.

…as we continue to think that the outlook for significant corporate profit growth is not fully reflected in current valuations for the majority of publicly traded companies.

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	$57.22	$217.91
9/30/2022	$55.40	$211.26
6/30/2022	$54.00	$204.45
3/31/2022	$51.29	$202.56
12/31/2021	$50.57	$198.68
9/30/2021	$48.59	$186.29
6/30/2021	$52.11	$175.60
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

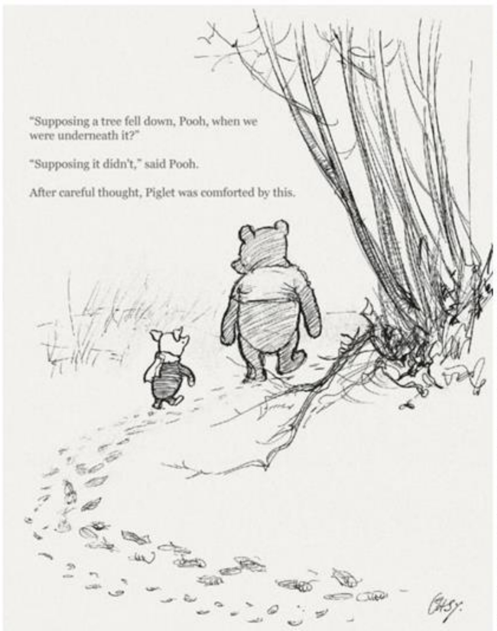
Source: Standard & Poor's. As of 8.26.21

To be sure, we continue to be braced for elevated volatility as geopolitical tensions have heightened, while COVID-19 remains omnipresent, but there are always things about which to worry. There can never be any guarantee that past is prologue, but thus far every single disconcerting event has been overcome and then some in the fullness of time!

THE PRUDENT SPECULATOR

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%	51851%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	29962%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26918%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10483%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9793%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11468%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8330%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6378%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4734%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5877%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4793%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6343%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4186%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4491%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3674%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2685%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1743%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1906%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1326%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1098%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	995%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	917%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	887%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	792%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	414%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	370%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	267%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	236%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	367%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	392%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	313%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	276%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	567%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**6207%**

As of 8.27.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

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.

High-end department store **Nordstrom** (JWN – $29.22) earned $0.49 per share in fiscal Q2 2022 (vs. $0.27 est.). JWN had sales of $3.57 billion, versus an estimate of $3.22 billion. After sharply rallying ahead of the announcement, shares have plunged some 23% since, as the relatively soft peer-relative outlook caused concern among analysts. Even though Q2 was better than the Street had expected on average, an analyst at Guggenheim wrote, "While Nordstrom continues to make progress on its sales and earnings recovery, we are somewhat surprised that the sales results weren't better" and an analyst at Telsey Advisory Group wrote, "Earnings remained below 2019 levels in the second quarter as opposed to peers such as **Kohl's** (KSS – $58.69) and Macy's, whose significant earnings beats last week likely elevated expectations."

We can understand the comparisons, but KSS and JWN are also dissimilar in many ways (which is part of the reason we have recommended both). The pandemic's recovery has been full of fits and starts, as businesses battle supply chain challenges, quickly evolving consumer tastes and a surplus of cash in bank accounts. The comparisons make sense at a very high level, but the devil is always in the details.

CEO Erik Nordstrom said, "We delivered strong second quarter results, driven by broad-based momentum across banners, regions and merchandising categories and the performance of our Anniversary Sale in which sales exceeded 2019 levels, an important milestone. We capitalized on improving customer demand with solid execution, healthy inventory sell-through and continued expense management. Our performance demonstrates the power of our interconnected brands and the potential of our transformation as we exit our Closer to You strategy. As consumer spending recovers, we are well positioned to capitalize on a significant opportunity to take market share and drive profitable growth with our expanding product offer, increasing customer engagement and integrated digital and physical assets. We've now had 4 consecutive quarters of sequential improvement in sales trends for both our Nordstrom and Nordstrom Rack banners with active customer accounts continuing to recover and approaching 2019 levels. Customers are increasingly engaging with us both in-store and online, as evidenced by continuing improvements in our store traffic and sales, along with robust digital growth. Our loyalty program remains a powerful engagement driver with Loyalty Club members contributing 70% of our Q2 sales, up 500 basis points from 2019."

Mr. Nordstrom continued, "Our merchandising and supply chain teams, along with our brand partners, executed well ensuring that we have the right assortment in the right place at the right time to serve demand. Overall, our outstanding employees delivered an excellent customer experience, and we would like to take a moment to thank them for their contributions to a successful event. In addition to strong top line and event performance, we made meaningful progress towards margin recovery this quarter, with reduced markdowns and solid sell-through as well as disciplined expense management. Our second quarter performance reflects our steady execution and commitment to the strategic priorities we shared at our investor event: win in our most important markets, broaden the reach of Nordstrom Rack and increase our digital velocity."

Mr. Nordstrom concluded, "As we look ahead, we are excited about the opportunity that lies before us. Our transformation is gaining momentum and positioning us to capitalize on a significant opportunity to profitably grow our business as demand improves. Though there is uncertainty regarding the future of the pandemic, we are closely monitoring impacts on the customer and supply chain while prioritizing the health and safety of our teams and customers. We have demonstrated our ability to navigate a rapidly changing macro environment with agility and flexibility, and we will maintain that focus as we move through the year. While we're pleased with our continued progress this quarter, we remain committed to the work ahead to better serve customers, capture market share, improve our profitability and create value for our shareholders."

CFO Anne Bramman added, “There remains uncertainty in the external environment, and we continue to prepare for a range of scenarios. Our second half outlook assumes that consumer spending will continue to be supported by economic improvement and increasing consumer mobility. Given these macro assumptions, our first half performance and plans for continued progress in the second half of the year for fiscal 2021, we now expect to deliver revenue growth of more than 35% versus fiscal 2020. Depending on the pace of revenue growth, and the evolution of macro-related cost pressures, we now expect to deliver EBIT margin of approximately 3% to 3.5% for the full year.”

Management remains focused on three priorities: win the most important markets, broaden the reach of Nordstrom Rack and increase Nordstrom’s digital velocity. Nordstrom burned through some of its cash to stay afloat last year, but we think the balance sheet is fairly solid, all things considered. We expect JWN to continue to see benefits from its online shop and think the customer-centric business model will remain rewarding. Like last quarter, Ms. Bramann noted that JWN will start returning cash to shareholders later this year but didn’t offer specifics on the timeline or quantity. Of course, we don’t actually want a huge payout right away as we want JWN to continue to make investments in the business and pay down debt. Having taken some of our Nordstrom winnings off the table earlier this year at very good prices based on the current close, our Target Price has been trimmed to $43.

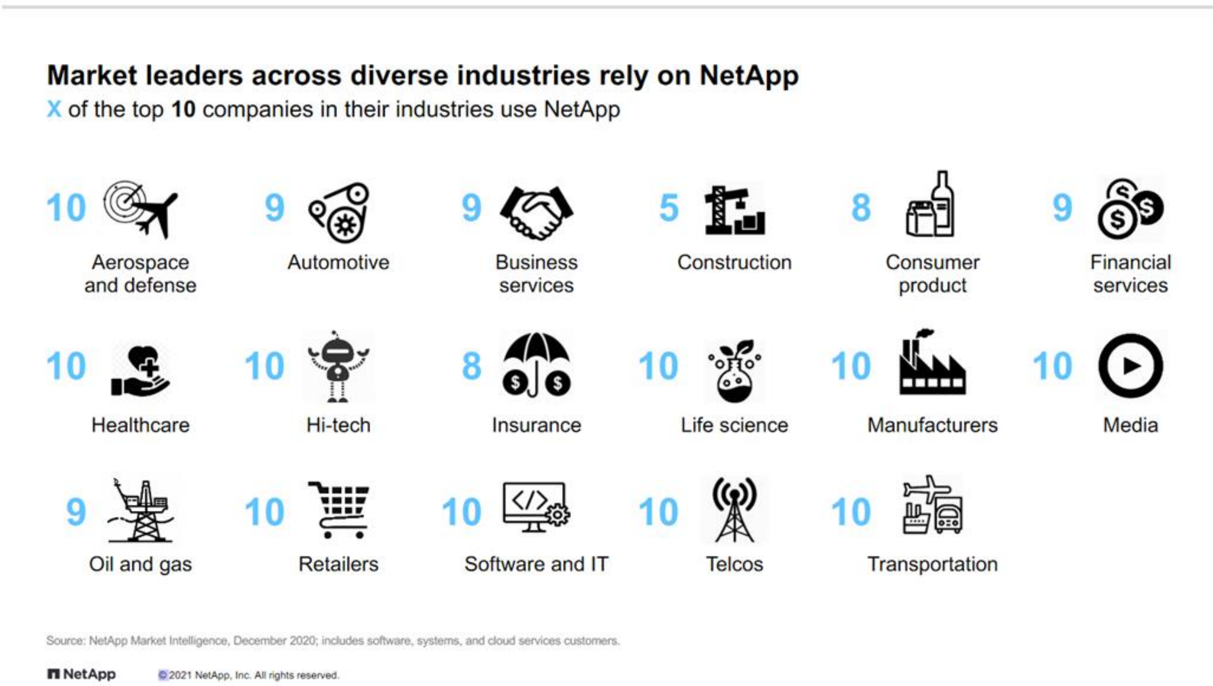
Shares of **NetApp** (NTAP – $87.06) jumped nearly 8% last week thanks in large part to a well-received fiscal Q1 2022 earnings report from the global cloud-led, data-centric software company. NTAP posted EPS of $1.15, versus estimates of $0.95, as revenue rose 12% on a year-over-year basis to $1.46 billion. The company reported a free cash flow number of $191 million, while deferred revenue grew to $3.9 billion. Gross margin was a record 69%, which management attributed to strong demand for the company’s software and Public Cloud platform.

CEO George Kurian said of the current environment, “The supply chain situation remains fluid. Our excellent supply chain and procurement team continues to work closely with our partner ecosystem with the goal of keeping backlog and customer lead times at normal levels. Towards this goal, we will continue to invest incremental dollars into inventory and longer-term commitments to help mitigate any potential supply risk. Aiding this effort is the fact that we have a singular software platform that powers all of our key storage products, which provides us added flexibility to work with our contract manufacturers and customers to meet end demand.”

Mr. Kurian closed, “We are at a unique inflection point in the company’s history as we continue to build out a truly differentiated public cloud platform while maintaining an unwavering focus on the Hybrid Cloud business. As a result, we are more confident than ever in our ability to deliver long-term value to our shareholders, customers and partners as we execute against both opportunities.”

NetApp said that it expects revenue to grow between 8% and 9% in fiscal 2022, resulting in EPS between $4.85 and $5.05. For Q2, revenue is projected to come in between $1.49 billion and $1.59 billion with EPS between $1.14 and $1.24. Management continues to be enthusiastic about the prospects for the Hybrid Cloud and Public Cloud platforms.

THE PRUDENT SPECULATOR
NTAP – BROAD USER BASE



NetApp bills itself as the “data authority for the hybrid cloud.” That is, NTAP’s products work as a neutral platform between any number of cloud vendors and on-premise environments. The company is #1 (according to Gartner) in general-purpose disk arrays and solid-state arrays, and calls Cisco, Microsoft, Oracle, VMWare, SAP, Citrix, Red Hat, IBM, Infosys, AWS and BMC among its partners. We think that NTAP’s commodity hardware (i.e. non-proprietary) and proprietary software model remains attractive, especially as long-term market growth requires significant off-premise and hybrid cloud investments. Following a challenging calendar 2020, NTAP has had several strong quarters and the company’s share price trajectory reflects that success. We think the growth phase is far from over and we like the company’s strong balance sheet (with $4.5 billion of cash and $2.6 billion of total debt), reasonable valuation metrics (including a forward P/E around 17) and history of returning cash to shareholders (the just-hiked dividend yield stands at 2.3%). NTAP is also expected to see EPS growth above 9% each of the next three years. Our Target Price has been boosted to $97.

Shares of hard-disk-drive maker **Seagate Technology PLC** (STX – $86.31) dropped last week after the company was downgraded by an analyst at Edgewater Research. The analyst warned that STX and competitor Western Digital might be exposed to “multiple risks” that could impact calendar Q3 and Q4 HDD shipments. The research note also said that a “messy” supply chain made it more difficult to determine demand, though it offered no details why the current supply chain varies from historical precedent.

Speaking of Western Digital, STX shares later rose modestly on news that its rival and Kioxia, a Japanese memory maker, are in late-stage merger talks. The talks have been rumored for a while, with **Micron** (MU – $74.00) also entering the conversation earlier this year. The probability that Seagate or Micron offer bids seems low to us, especially as Kioxia already does contract manufacturing for Western Digital and an STX bid might yield more intense scrutiny from regulators in the U.S. and Japan. If anything, the M&A shows that there's more value to be had in NAND and HDD/SSD manufacturing.

We think the research note offered little support for a revised outlook, and we like that Seagate continues to generate solid free cash flow, giving management further flexibility to invest in new projects or return cash to shareholders. STX continues to repurchase shares, while the dividend yield stands at 3.1%. The valuation remains reasonable, including a forward P/E ratio less than 11, and earnings are expected to grow for the foreseeable future on the strength of cloud investments. Our Target Price for STX is $114.

Big Lots (BIG – $51.62) reported fiscal Q2 2022 results on Friday morning before the equity markets opened. The stock opened down more than 12% that morning, before rallying to close down "only" 4.9%. For the quarter, BIG reported revenue generally in line with expectations ($1.46 billion vs. $1.47 billion), though adjusted EPS of $1.09 lagged the consensus analyst estimate of $1.12. While investors were looking for same store sales to drop more than 11% during Q2, the company said the actual reading was a bit more than 13% down.

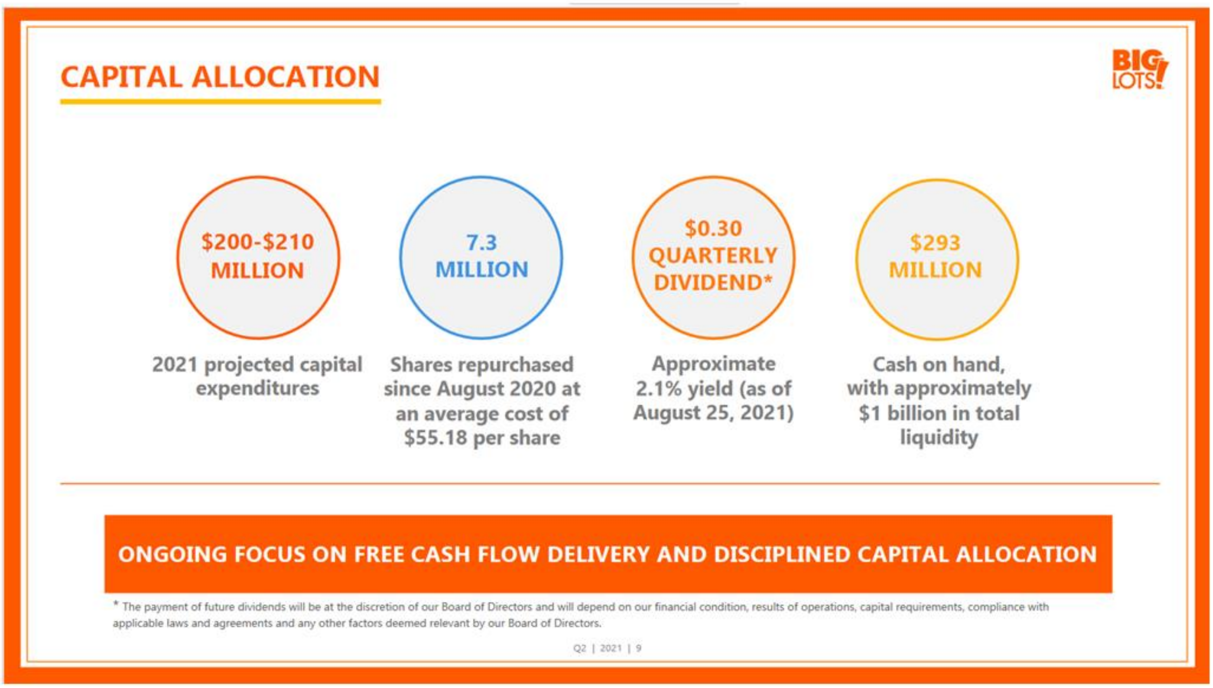
CEO Bruce Thorn commented, "We have completed another solid quarter that demonstrated the strength of our Operation North Star strategic initiatives, with continued focus on our growth drivers – customer growth, merchandise productivity, ecommerce, and store count growth. We saw two-year comp sales growth across all merchandise categories other than Food, with strong double digit two-year growth in Furniture, Soft Home, Hard Home, and Apparel, Electronics & Other. Furniture sales remain strong and were up over 30% to 2019, led by continued acceleration in Broyhill. Also, within furniture, we are very enthusiastic about the expanding offering in our entry-level price-point Real Living brand, which provides great value for our existing and new customers. Speaking of new customers, we added nearly 1.7 million new Rewards customers to the Big Lots family during the quarter."

He continued, "Ecommerce demand grew by 10% in the second quarter compared to fiscal 2020. This represents over 400% growth to the second quarter of 2019. Demand generated in the ecommerce channel was driven by strong sell-through in our lawn & garden assortment. In addition, we posted another quarter of net store count growth, as we continue to accelerate on this key growth driver. To enhance our in-store experience, we have now launched Project Refresh, a multi-year program to upgrade our approximately 800 stores not included in our prior Store of the Future program."

Looking ahead, management said that because of supply chain and freight headwinds it was reducing its full-year outlook for adjusted EPS to a range of $5.90 to $6.05 (well below the consensus analyst estimate of $6.67 going into Friday). Mr. Thorn remarked, "We know that the supply chain headwinds will continue into Fall and Holiday, and the situation remains fluid. But our team is working exceptionally hard to get through this and make sure that our assortments continue to surprise our customers and deliver phenomenal value!"

THE PRUDENT SPECULATOR

BIG – SHAREHOLDER FRIENDLY



BIG remains inexpensive at less than 10 times NTM expected adjusted EPS. Management has spent approximately $403 million of its allotted $500 million on share buybacks (repurchasing approximately 7.3 million shares), and we hope they will take advantage of the recent downturn to buy more, especially as the balance sheet continues to be in terrific shape. The dividend yield is now 2.3% and our Target Price has been adjusted to $85.

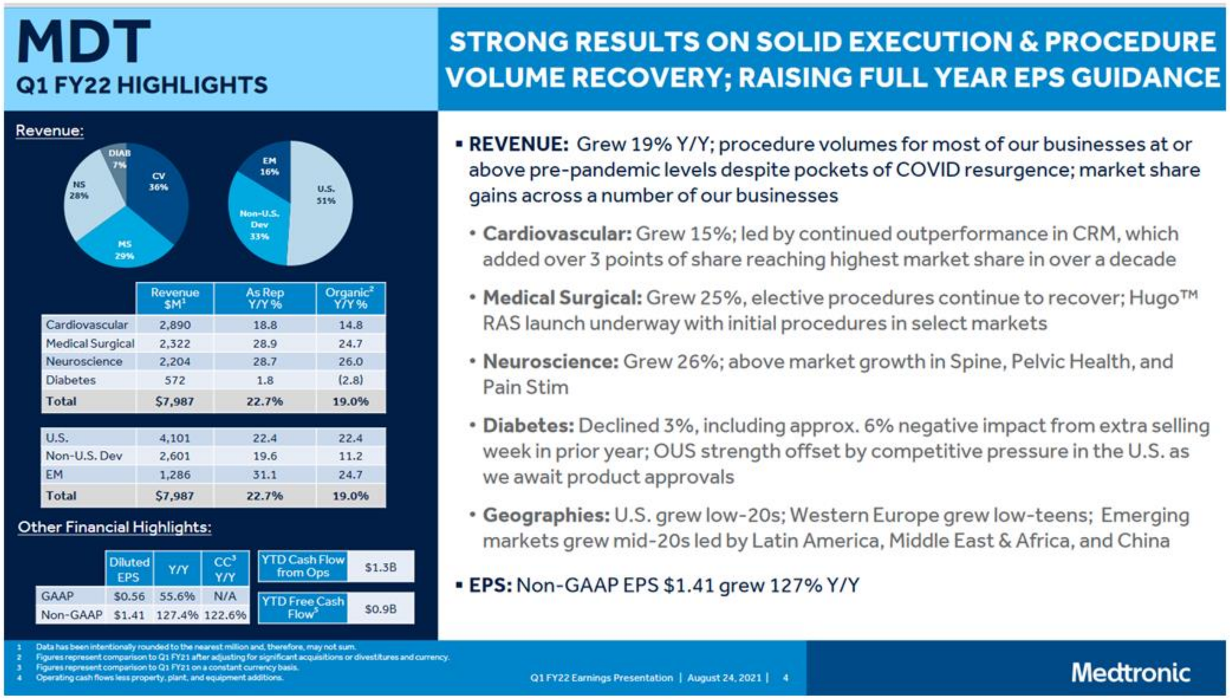
Consumer staple concern **JM Smucker** (SJM – $123.57) released its fiscal Q1 results last week in which it earned $1.90 per share (vs. the consensus analyst est. of $1.86), a 20% decrease compared to the prior year. Within the U.S., pet food sales increased 2% excluding the divestiture of Natural Balance early this year. Coffee was affected by lower net pricing, higher commodity costs and the reduced contribution from volume/mix, partially offset by decreased marketing expense. Higher net price realization in Consumer Foods contributed 4 percentage points of growth, primarily driven by peanut butter and Smucker's Uncrustables frozen sandwiches. Higher costs (particularly commodity and transportation) dented operating profit across all segments. Management expects adjusted earnings per share for the full year between $8.25 to $8.65 with comparable net sales projected to increase approximately 2.5% at the mid-point of the guidance range.

SJM CEO Mark Smucker commented, “Our first quarter results reflected organic net sales growth, while lapping double-digit growth in the prior year, and continued to demonstrate consumers’ desire for our brands, while earnings were in line with our expectations. The progress we have made against our strategy and executional priorities has made us a stronger company, positioning our iconic brands for continued growth in market share.”

He continued, “Our industry continues to navigate a period of significant supply chain volatility, disruption, and cost inflation. In the near term, we expect to experience higher raw material and logistics cost increases. However, we are optimistic in managing these challenges and remain confident in the momentum of our business, the talent and commitment of our people, and our strengthened financial position to deliver balanced top- and bottom-line growth and long-term shareholder value.”

Growth has been challenging for many of SJM’s products (which are mostly in the center aisles of the grocery store) over the past 5 years, given a shift toward healthier food choices by consumers. But we appreciate the benefits of diversification offered by the same brand portfolio throughout hard times, as shares benefited handsomely amid a challenging economic backdrop in the prior year. A modest 3-month slide (the EPS outlook was slightly below that for which the Street was looking) has SJM trading for just 14.3 times forward earnings estimates, with a dividend yield of 3.2%. Our Target Price has been trimmed to $151.

Medical device maker **Medtronic PLC** (MDT – $133.81) posted EPS of $1.41 for fiscal Q1, another massive increase over the prior-year quarter, as revenue grew 47% to $8 billion. Shares bounced on the Tuesday release, extending the rally to an all-time high on Wednesday. Cardiac sales increased 19% on an organic basis driven by low-double digit percentage growth in Defibrillation Solutions and low-twenties growth in Cardiac Pacing Therapies, including low-thirties growth in Leadless Pacemakers on the continued global adoption of the Micra transcatheter pacing system. Sales within Surgical grew 25% on a very strong performance by Vessel Sealing and Advanced Stapling. The Neuroscience portfolio grew 26% on 37% growth from both Specialty Therapies and Neuromodulation.



Management continues to expect revenue growth of approximately 9% on an organic basis in fiscal year 2022 but narrowed the EPS guidance to a range of $5.65 to $5.75. Medtronic CEO Geoff Martha commented, “Fiscal 2022 is off to a strong start with our first quarter results coming in ahead of our expectations, reflecting solid execution and continued procedure volume recovery, with most of our businesses at or above pre-COVID levels. In addition, we drove market share gains across a number of our businesses, including three of our largest: Cardiac Rhythm Management, Surgical Innovations, and Cranial & Spinal Technologies. Looking ahead, we have some big opportunities in front of us, with near-term milestones in both our renal denervation and surgical robotics businesses. These opportunities, combined with the broader investments we’re making in our pipeline, set us up well to accelerate our top line growth.”

We are encouraged that MDT has returned to pre-pandemic levels after a difficult 2020. The med-tech concern seems to continuously offer up new products to keep the growth engine going as older products mature. We like the company’s diverse portfolio and solid financial position, which is essential to support increases in research & development spending. With domestic demographic trends in its favor, MDT’s terrific products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders, are major assets, with lots of room to improve its diabetes offering. After a terrific run this year, shares of high-quality MDT trade for a market multiple. The dividend yield is 1.9% and our Target Price has been adjusted upward to $148.