Market Commentary Monday, September 6, 2021

September 6, 2021

EXECUTIVE SUMMARY

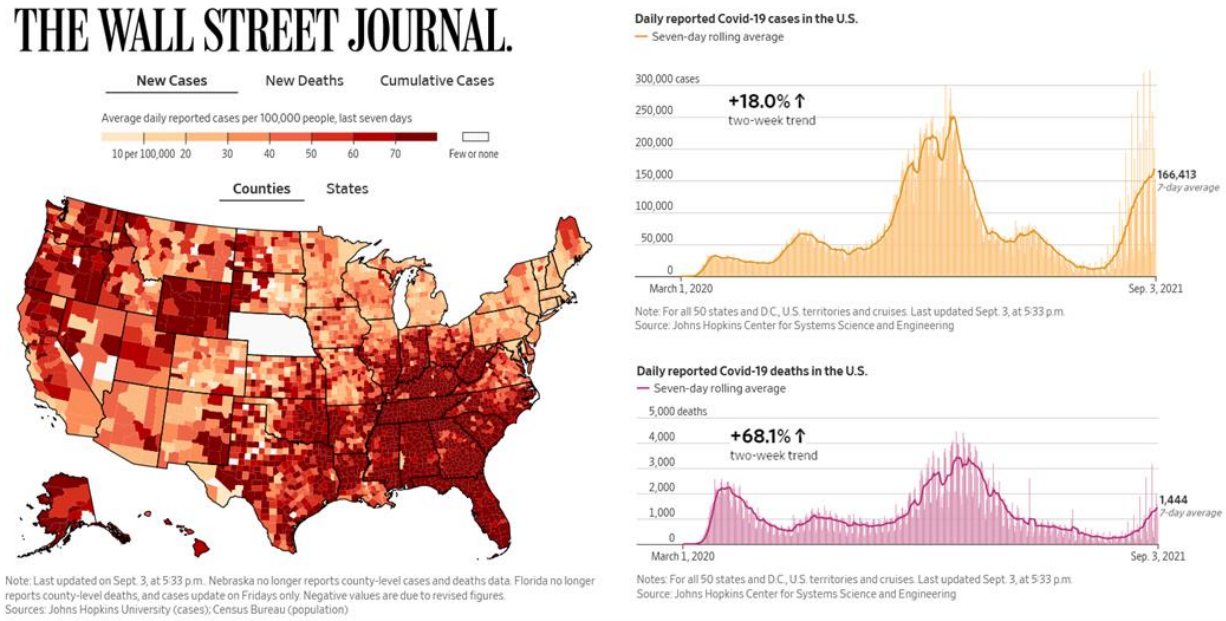
Week in Review – Lots of Seemingly Bad News But Stocks Hold Up
September – Not so Grand for 93 Years; Not so Bad for the Russell 3000 Value Index for the Past 25 Years
Perspective – Stocks Often Climb a Wall of Worry
Econ News – Weak Payroll Growth; Other Numbers Not so Bad
GDP Outlook – Tempered Growth Expectations, But EPS Still Expected to Jump in H2 2021 and 2022
Interest Rates – Stocks Attractively Valued on a Relative Basis
Sentiment – Tons of Money in Low/No-Yielding Fixed Income; Still Little in the Way of Excessive Equity Market Optimism
Stock News – Updates on AVGO & HPE

Market Review

The equity markets held up quite well in the latest week, given the continued geopolitical fallout from the chaotic (and deadly) pullout of American troops from Afghanistan, the devastation inflicted by Hurricane Ida across a wide swath of the U.S. and the continued surge in coronavirus cases.

LOW VACCINATION RATES AND THE DELTA VARIANT = COVID-19 SPIKE

With the virus counts worse, not surprisingly, in states with lower vaccination rates, the spread of the Delta variant has caused a spike in COVID-19 cases, extending the health crisis and delaying a return to normalcy for Corporate America. While the death toll has started to climb again, fatalities are below prior peaks as 64.0% of the U.S. population age 18+ is fully vaccinated.

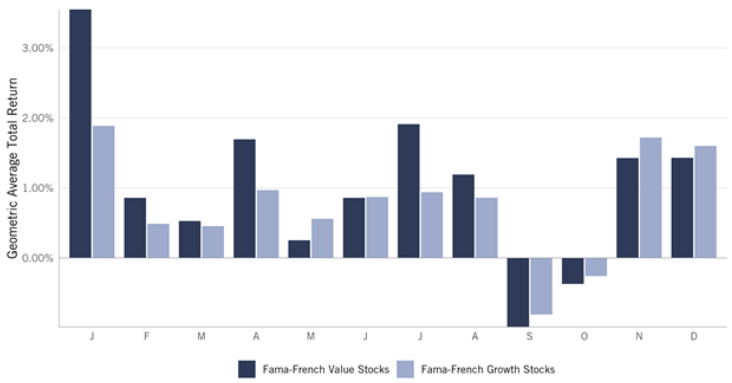


There is no guarantee that investors will continue to maintain their faith in equities as we go forward, and we concede that September has not been a great month over the last 93 years,…

THE PRUDENT SPECULATOR

SEPTEMBER HISTORICALLY THE WORST MONTH OF THE YEAR

While the losses have been relatively tame over the last nine decades, and the period has been modestly positive on average for our benchmark Russell 3000 Value index over the past 25 years, September is one of only two months, October the other, where returns on Value stocks have been negative dating back to 1927.



From 12.31.27 through 12.31.20. Geometric average. 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. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Scary September
Last 25 Years

	Russell 3000 Value	S&P 500 Value	S&P 500 Pure Value
Average	0.15	-0.01	-0.05
2020	-2.58	-2.40	-3.73
2019	3.67	3.74	6.01
2018	0.00	0.38	-0.42
2017	3.26	3.28	3.78
2016	-0.13	-0.37	0.21
2015	-3.05	-2.79	-3.84
2014	-2.43	-1.75	-3.17
2013	2.76	2.47	3.91
2012	3.20	3.13	3.41
2011	-7.83	-7.49	-8.54
2010	7.99	7.74	9.89
2009	3.95	3.16	7.23
2008	-7.13	-7.48	-7.06
2007	3.19	3.10	0.99
2006	1.90	2.66	1.82
2005	1.26	1.04	0.35
2004	1.75	1.89	2.66
2003	-0.99	-1.81	-0.97
2002	-10.84	-11.43	-14.61
2001	-7.32	-9.50	-11.22
2000	0.82	-0.02	0.17
1999	-3.39	-3.91	-4.47
1998	5.73	6.08	7.25
1997	6.10	5.86	6.21
1996	3.84	4.28	2.82

% Total Return August 31 - September 30. Source Kovitz using data from Bloomberg

…but stocks have been climbing a Wall of Worry, comprised of arguably more troublesome bricks than what we are seeing today, since the end of the Great Financial Crisis.

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

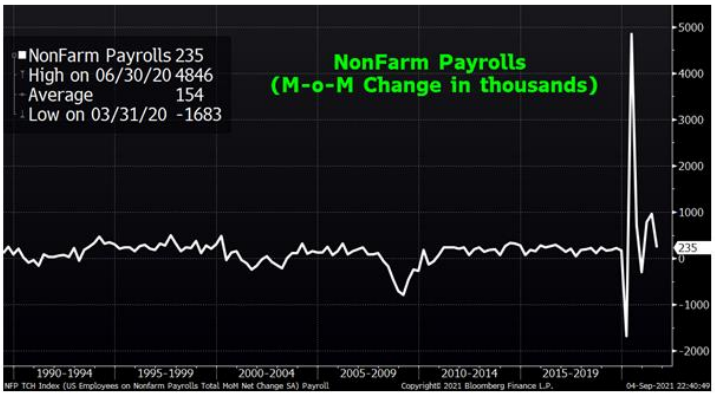
Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	302%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	248%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	278%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	216%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	218%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	174%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	147%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	127%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	124%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	120%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	116%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	125%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	119%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	141%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	115%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		112%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		69%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			65%
Biden Victory	11/3/2020	3,369.16	14%	24%				35%
Georgia Runoff	1/5/2021	3,726.86	9%	17%				22%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**14%**	**38%**	**72%**	**144%**

Source: Kovitz using data from Bloomberg. As of 9.3.21

To be sure, we respect that the spread of the Delta variant has put a damper on the economic recovery, as the all-important report on payroll creation for August from Uncle Sam came in well below expectations on Friday,…

THE PRUDENT SPECULATOR

AN INCREASE IN JOBS…BUT FAR BELOW FORECASTS



Economists were looking for a huge gain of 720,000 payrolls, so the increase of 235,000 in August was much weaker than expected, even as the July tally was revised upward to a 1.05 million gain. The retail sector shed 28,500 jobs, while payrolls for state and local government fell by 11,000. Employers are having to raise wages in order to fill positions as early retirements, lack of child care, virus fears and Uncle Sam's largesse have kept many folks at home.

…even as wages rose sharply, while the jobless rate and first-time filings for unemployment benefits hit pandemic lows.

THE PRUDENT SPECULATOR

LOTS OF FOLKS OUT OF WORK…BUT NUMBERS SHOW IMPROVEMENT

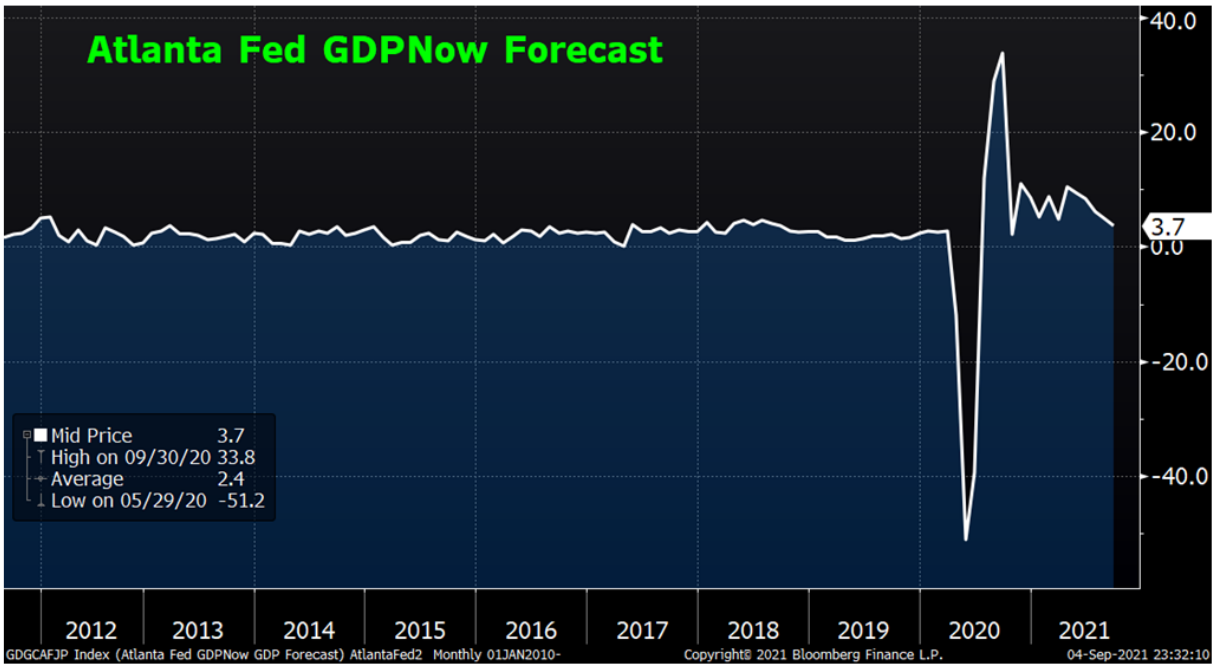
Even though the number of new jobs created came in well below projections, the jobless rate for August improved again, dipping to 5.2%, down from 5.4% the month prior. 16 months ago, the unemployment rate hit a record 14.8%, so the labor situation has improved considerably, and first-time filings for unemployment benefits in the latest week dipped to 340,000, a new pandemic low.

No doubt, the near-term economic outlook has been tempered somewhat,…

THE PRUDENT SPECULATOR

LESS-STELLAR, BUT STILL SOLID 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 has dropped in the last couple of weeks to 3.7%.

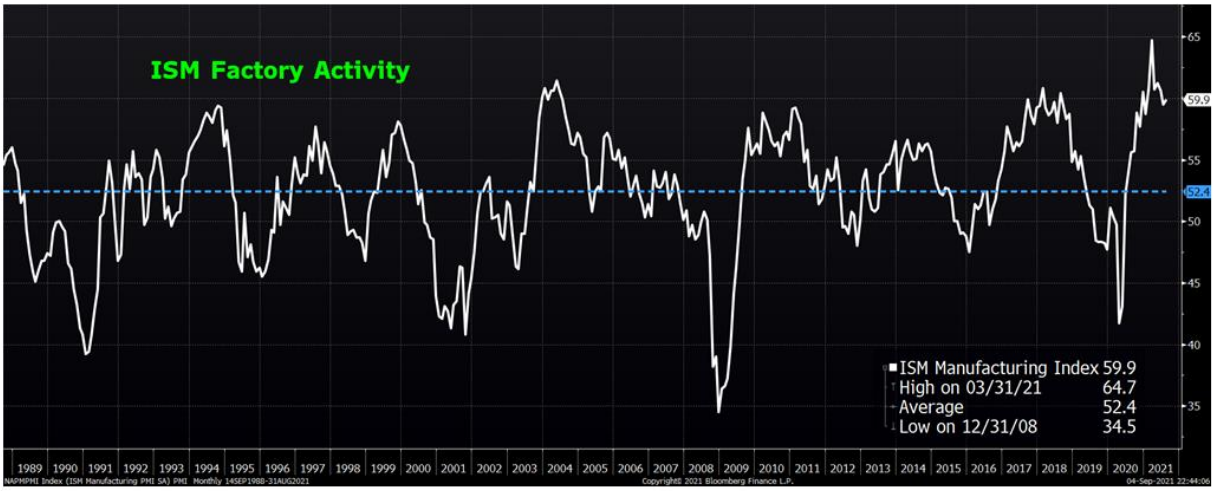


…but forward looking measures on the health of the factory sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING INCHES UP: 4.8% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in at a better-than-expected at 59.9 in August, up from a reading of 59.5 in July, and residing at a level well above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 4.8% increase in real gross domestic product (GDP) on an annualized basis."

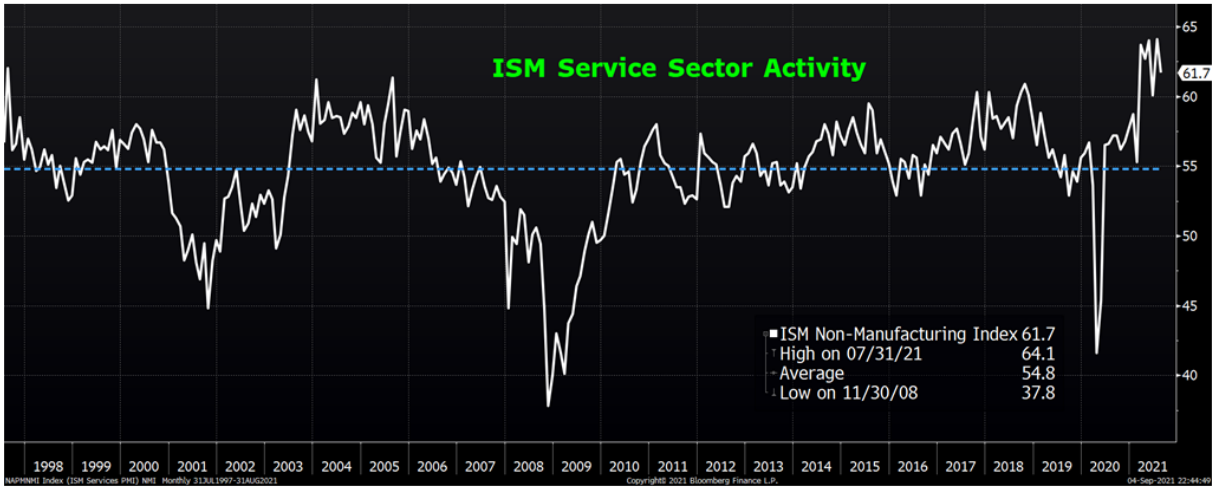


…and the services sector continue to suggest that GDP growth will remain quite healthy.

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING PULLS BACK: 4.4% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector pulled back to a 61.7 in August, down from a record 64.1 in July. The figure is still one of the best in the history of the index, and suggests a strongly growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 4.4% increase in real gross domestic product (GDP) on an annualized basis."

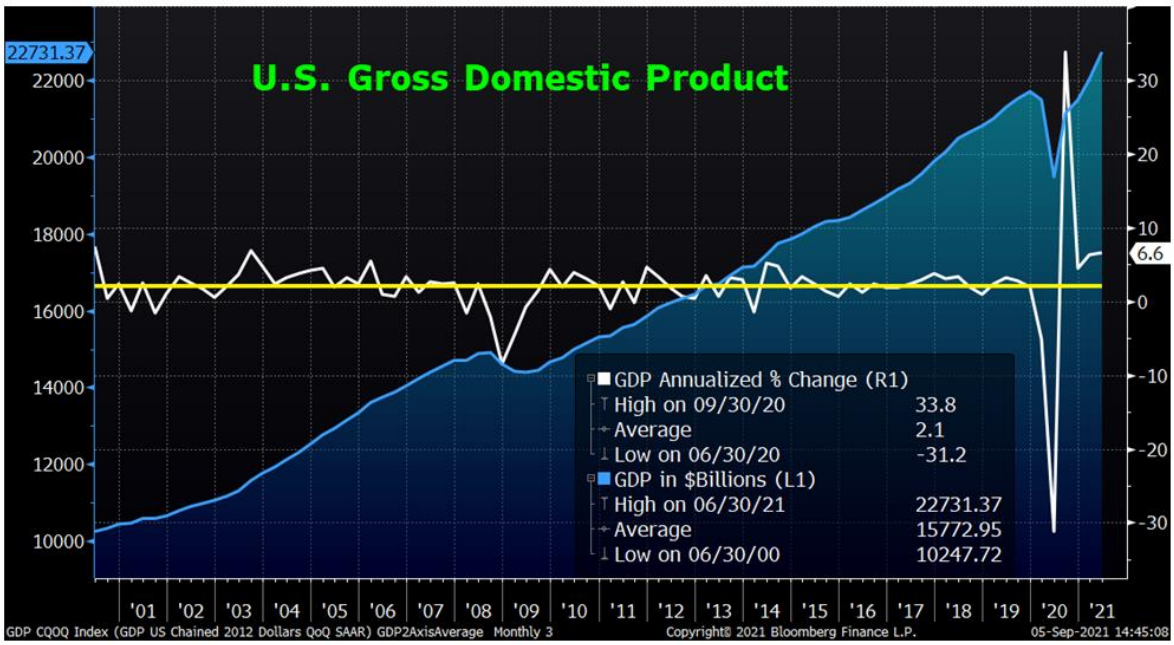


And we can't complain too much about a modest reduction in the magnitude of the economic rebound from the COVID-19 depths last year, given that the fastest quarterly growth in GDP over the past dozen years was 5.2% in Q2 2014 and the average GDP growth tally has been 2.2%.

THE PRUDENT SPECULATOR

EXCELLENT Q2 U.S. GDP GROWTH OF 6.6%

Second quarter 2021 real (inflation-adjusted) domestic economic growth came in at a very strong 6.6% rate on an annualized basis, and the current-dollar GDP figure of $22.7 trillion is now at an all-time high, surpassing the pre-pandemic $21.7 trillion posted in Q4 2019.

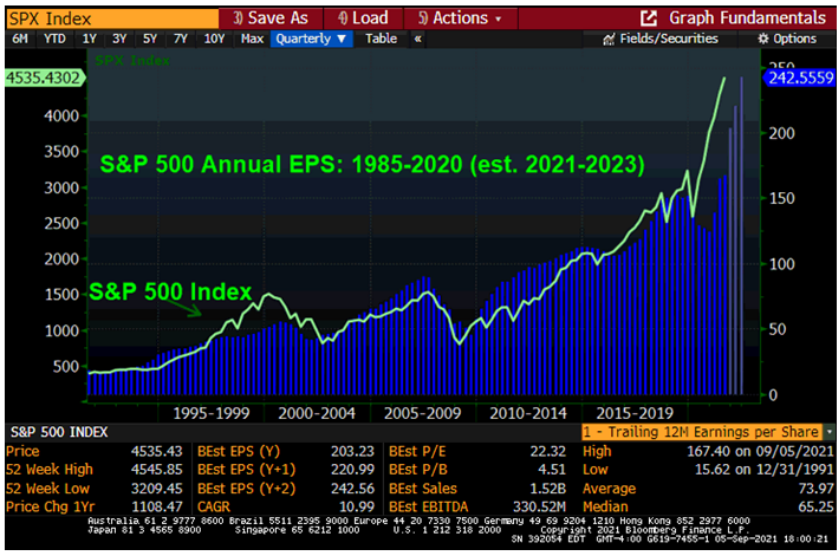


Of course, we might expect that it will be more difficult to achieve the terrific growth in corporate profits that analysts are projecting over the balance of this year and in 2022,…

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	$217.96
9/30/2022	$55.41	$211.31
6/30/2022	$54.03	$204.47
3/31/2022	$51.30	$202.55
12/31/2021	$50.57	$198.66
9/30/2021	$48.57	$186.27
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 8.31.21

…but the valuations on equities in general from an earnings perspective,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

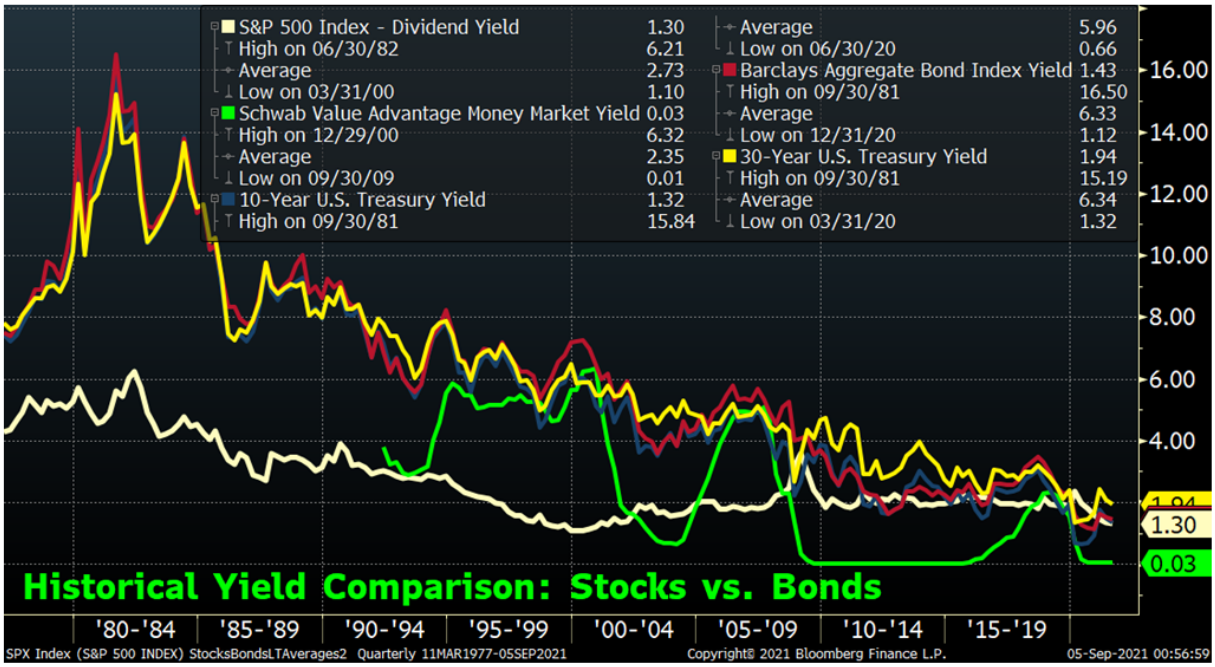
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. 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 (3.69% vs. 1.32% 10-Year) and S&P 500 dividend yield of 1.30%.

…and from an income perspective remain very attractive,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.30%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 43 times the yield of a "generous" Money Market Fund**!



…with the metrics on our broadly diversified portfolios of what we believe to be undervalued stocks even more appealing.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	16.3	14.1	1.3	2.5	2.1
ValuePlus	17.3	14.1	1.6	2.5	2.0
Dividend Income	15.4	13.8	1.1	2.5	2.6
Focused Dividend Income	16.0	14.0	1.3	2.6	2.4
Focused ValuePlus	16.1	15.0	1.6	2.8	2.1
Small-Mid Dividend Value	13.3	11.8	0.8	1.7	2.3
Russell 3000	30.4	23.4	2.9	4.4	1.2
Russell 3000 Growth	43.4	33.2	5.1	13.1	0.7
Russell 3000 Value	23.0	17.7	2.0	2.6	1.9
Russell 1000	28.3	23.0	3.1	4.6	1.2
Russell 1000 Growth	40.4	32.2	5.6	14.2	0.7
Russell 1000 Value	21.3	17.5	2.1	2.7	1.9
S&P 500 Index	27.1	22.3	3.1	4.7	1.3
S&P 500 Growth Index	35.5	29.4	5.9	11.1	0.7
S&P 500 Value Index	21.2	17.4	2.0	2.8	2.0
S&P 500 Pure Value Index	13.2	10.6	0.8	1.3	2.4

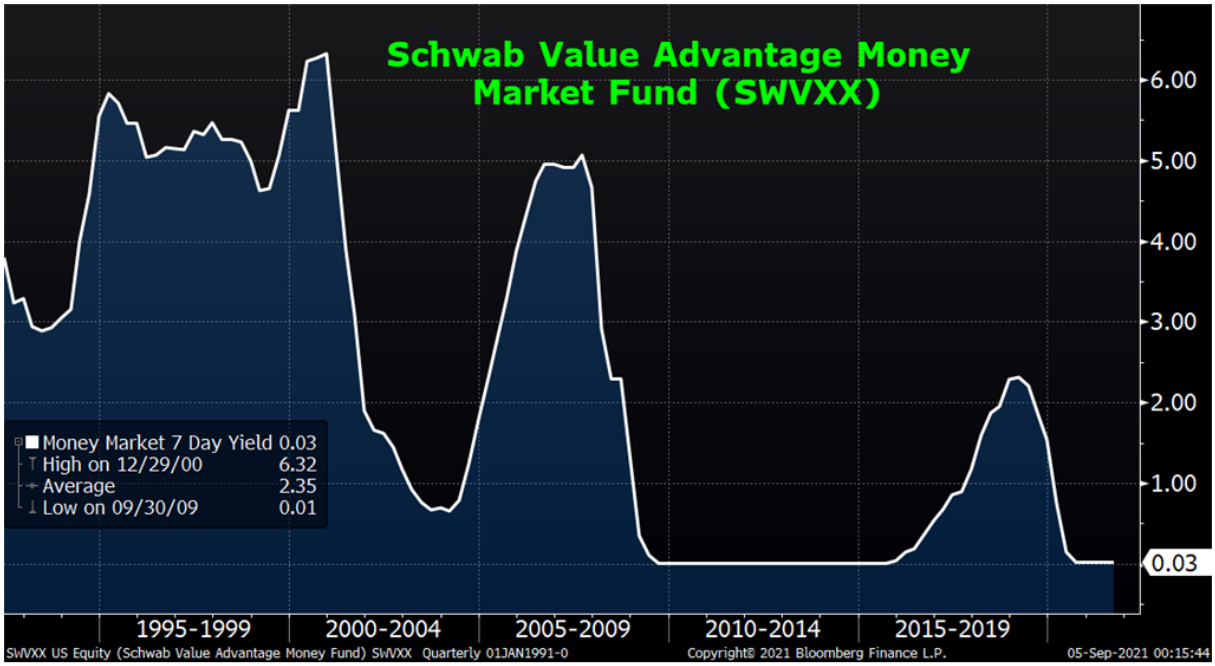
As of 09.03.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Certainly, we respect that a forward P/E ratio of 22.3 for the S&P 500 is not cheap by historical standards, but one cannot look at equity valuations in a vacuum. After all, there is a big difference between what presently is available on Main Street as far as a risk-free rate (the yield on a popular money market fund is 3 basis points today) compared to what could have been had back in the year 2007 and 2000,…

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.

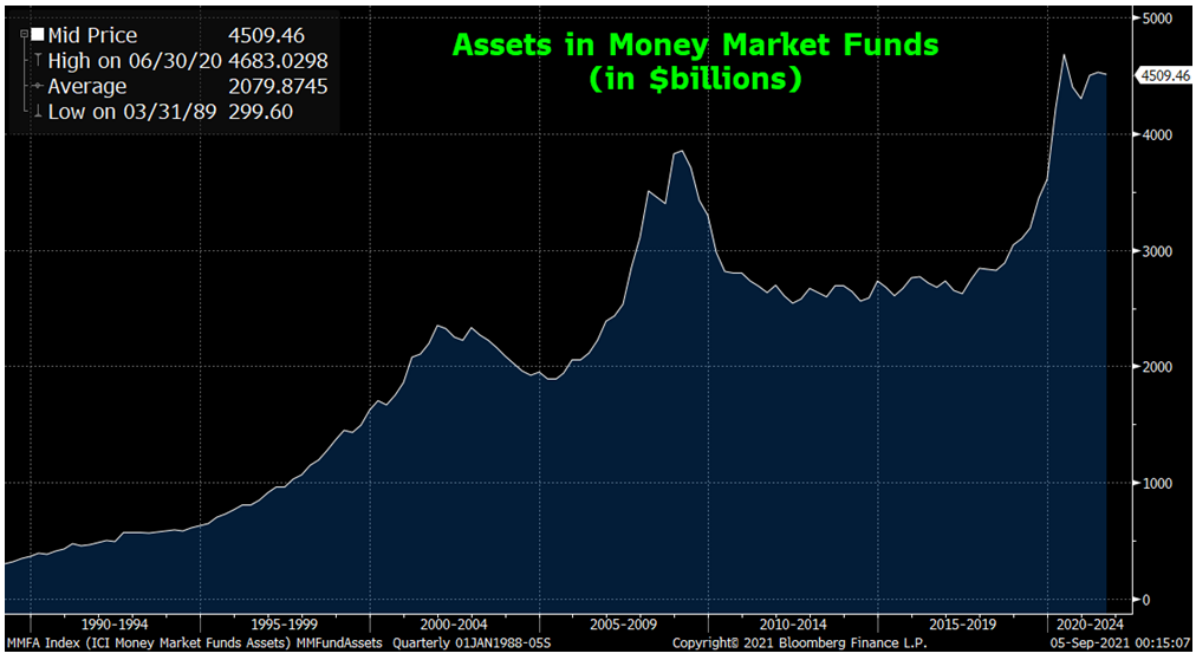


…and we note that there is more money hibernating in those funds today than there was in either of those two periods!

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.



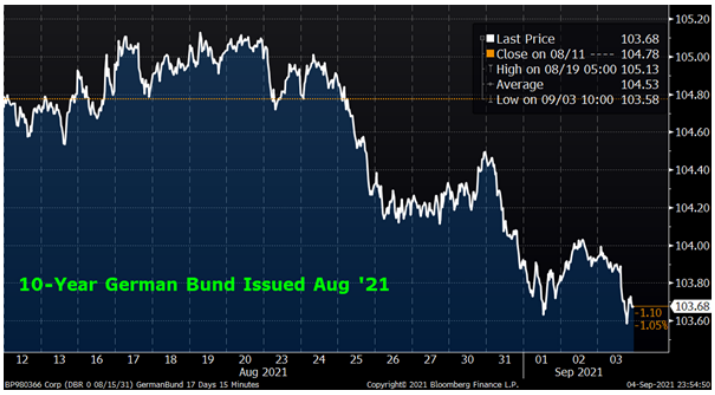
While $4.5 trillion collecting a few pennies of interest illustrates to us that there is hardly excessive optimism in the stock market, even more amazing is the $15 trillion of negative yielding government debt,…

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.

…where the risk dwarfs the reward and greater fools seem to offer the only hope of not losing money, much less losing purchasing power.

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS

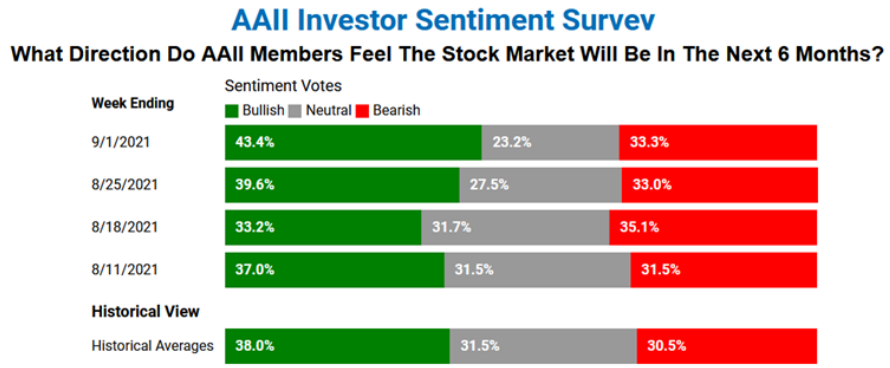


On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 2.3-fold increase (the bonds have lost 1.05%) in their expected annual return in just 17 trading days!

Certainly, we remain braced for elevated volatility, but we see plenty of reasons to be optimistic about the long-term prospects for stocks and we like, from a contrarian perspective, that our preferred AAII weekly Sentiment gauge is still showing more Bears than normal,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – BULLISHNESS AND BEARISHNESS RISE



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	906	0.27%	0.23%	1.26%	1.13%	3.67%	3.28%	7.20%	6.45%
ABOVE	8.1	62.9	871	0.17%	0.15%	0.52%	0.43%	1.94%	1.69%	4.50%	4.03%
Ten Groupings of 1777 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	-7.2	175	0.31%	0.28%	0.93%	0.80%	3.78%	3.42%	7.19%	6.42%
3	-7.2	-1.2	177	0.37%	0.33%	1.52%	1.42%	3.36%	2.97%	7.16%	6.51%
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	194	0.05%	0.02%	0.64%	0.55%	2.42%	2.17%	4.67%	4.15%
6	8.1	12.2	160	0.10%	0.08%	0.41%	0.28%	1.62%	1.38%	4.61%	4.12%
7	12.2	16.6	178	0.21%	0.19%	0.71%	0.62%	2.48%	2.23%	5.06%	4.63%
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%	4.15%	3.57%
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 9.2.21. 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 above normal would be viewed as a negative, though Bears are also above average. The 10.1-point Bull-Bear spread is above par and in the 6th decile of the historical figures.

…that the latest real-time Fear & Greed measure is in neutral territory,…

FEAR & GREED INDEX…BACK TO NEUTRAL READINGS

With the major market averages moving up in the last two weeks, folks became more optimistic. The *CNNMoney* Fear & Greed Index rebounded from Fear into Neutral. Extreme Fear readings for Stock Price Breadth and Stock Price Strength were offset by Extreme Greed for Junk Bond Demand and Put and Call Options, as well as Greed in Market Momentum.

…and mutual and exchange traded fund investors remain enamored with bonds.

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	8/25/2021	8/18/2021	8/11/2021	8/4/2021	7/28/2021
Total Equity	-2,554	17,818	4,748	7,911	7,091
Domestic	-7,364	13,660	763	-4,018	2,244
World	4,809	4,158	3,985	11,929	4,846
Hybrid	314	1,406	947	308	381
Total Bond	12,392	11,259	14,098	7,876	12,918
Taxable	10,029	8,360	11,375	5,647	9,657
Municipal	2,363	2,898	2,724	2,228	3,261
Commodities	-1,186	-437	113	247	-77
Total	8,966	30,045	19,907	16,342	20,313

Source: Investment Company Institute

Investment Company Institute

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

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	25,064
Mar-15	-1,494	4,905	Nov-16	22,993	-13,289	Jul-18	1,007	22,495	Mar-20	-7,485	-273,714
Apr-15	-34,681	11,027	Dec-16	18,859	-4,142	Aug-18	-6,660	17,219	Apr-20	2,664	14,672
May-15	-17,287	5,010	Jan-17	5,097	31,037	Sep-18	886	18,526	May-20	-20,929	73,166
Jun-15	-7,023	6,324	Feb-17	17,613	33,991	Oct-18	-9,657	-27,700	Jun-20	-24,819	100,103
Jul-15	-14,864	-1,255	Mar-17	9,411	36,562	Nov-18	2,783	-7,459	Jul-20	-46,524	98,490
Aug-15	-18,569	-18,122	Apr-17	-8,266	22,064	Dec-18	-28,953	-49,512	Aug-20	-57,594	84,113
Sep-15	-4,725	-10,849	May-17	-10,725	33,070	Jan-19	-21,195	29,308	Sep-20	-28,900	51,000
Oct-15	-807	15,397	Jun-17	-7,944	29,372	Feb-19	3,632	45,138	Oct-20	-52,484	63,918
Nov-15	654	-5,573	Jul-17	-12,518	29,139	Mar-19	-3,654	38,412	Nov-20	41,143	58,854
Dec-15	476	-25,043	Aug-17	-22,771	25,078	Apr-19	-5,307	40,565	Dec-20	-34,003	76,186
Jan-16	-27,222	7,686	Sep-17	-9,775	33,440	May-19	-24,652	21,332	Jan-21	-37,318	93,758
Feb-16	-9,108	11,915	Oct-17	3,166	36,110	Jun-19	-11,997	39,771	Feb-21	45,116	71,788
Mar-16	7,711	29,296	Nov-17	-4,417	19,788	Jul-19	-7,889	44,811	Mar-21	53,232	51,291
Apr-16	-12,610	22,114	Dec-17	-9,054	19,491	Aug-19	-29,908	22,304	Apr-21	-484	79,728
May-16	-14,252	16,925	Jan-18	10,778	46,287	Sep-19	-4,650	38,482	May-21	8,308	39,542
Jun-16	-15,530	16,623	Feb-18	-41,444	2,706	Oct-19	-24,645	43,187	Jun-21	-4,088	56,804
Jul-16	292	33,575	Mar-18	-22,152	14,148	Nov-19	-11,716	44,480			
Aug-16	-9,956	30,859	Apr-18	-7,403	24,176	Dec-19	-27,500	50,733	Totals:	-723,227	1,955,676

While there had been sizable net inflows into U.S. equity funds in mid-August, 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!

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 two of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices.

Shares of **Broadcom** (AVGO – $497.68) gained 1.2% on Friday, following the company's Thursday evening fiscal Q3-estimate-beating financial release. The semiconductor giant earned an adjusted $6.96 per share, versus the analyst consensus of $6.85. Revenue was $6.78 billion, compared to the projection of $6.76 billion. Revenue rose 16% year-over-year, with Semiconductor Solutions up 20% and Infrastructure Software climbing a more modest 4%. AVGO benefitted from growth in its 5G infrastructure, broadband and wireless businesses and expects the momentum to carry into the fourth quarter. For upcoming quarter, AVGO expects

revenue around $7.35 billion and adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and non-cash charges) around 61% of revenue.

CEO Hock Tan commented, "In Q3, demand continued to be strong from hyper cloud and service provider customers. Wireless, continuing to have a strong year-on-year compare and while enterprise has been on the trajectory of recovery, we believe Q3 is still early in that cycle and then enterprise was down year-on-year. On the supply side, we continue to keep our lead times stable."

Mr. Tan continued, "For Q4, we continue to expect double-digit year-on-year revenue growth in broadband, have been seen for the last few quarters. So looking ahead, we see service provide those by AT&T, British Telecom and even Deutsche Telekom, deploying in increasing volumes, next generation last mile fiber connectivity to homes in the U.S. and globally, multi-year and multi-billion dollar investments by this operators. And you need WiFi connectivity for the last 100ft within the homes. And we lead the global transition to WiFi 6 to date, we expect our strong design win momentum for WiFi 6 at US and European operators, will sustain our market position into the next generation."

After a terrific advance last year and a tough first half of 2021, AVGO shares have finally found some momentum, pushing the price gain to around 14% YTD. Although it's below the S&P 500 index's return this year, we think the business remains healthy and analysts expect earnings growth around 8% and 5% for 2022 and 2023, respectively. Supply constraints are likely to continue, but management is also trying not to overshoot on manufacturing, ending up with excess inventory, with Mr. Tan adding, "We can show bigger numbers, but that means we will build inventory in the wrong places." Broadcom is ruthless when it comes to cost discipline, and we think the valuation metrics remain inexpensive, including a forward P/E around 16 and a free cash flow yield near 7%. We see continued strength in free-cash-flow generation, which should be used to further pay down debt and to look for strategic deals. AVGO also sports a very generous dividend yield of 2.9%. Our Target Price for AVGO has been boosted to $544.

Hewlett Packard Enterprise (HPE – $15.48) reported Thursday afternoon fiscal Q3 2021 earnings per share of $0.47 (vs. $0.42 est.) and revenue of $6.90 billion (vs. $6.93 billion est.). The information technology solutions company offered guidance that was below consensus estimates. HPE expects $0.44 to $0.52 in adjusted EPS next quarter, compared to the analyst estimate range of $0.45 to $0.54. For the full year, adjusted EPS should come in between $1.88 and $1.96 (estimate range $1.85 to $1.95), while free cash flow should be between $1.5 billion and $1.7 billion. HPE shares dropped a couple of percent in after-hours trading on Thursday, but closed modestly higher in an otherwise negative market day in actual trading on Friday.

"We delivered a very impressive Q3 performance, marked by strong order growth, expanded margins and record free cash flow," said CEO Antonio Neri. "I am pleased to see how our differentiated portfolio is resonating with the market, and our edge-to-cloud strategy is driving improved momentum across our businesses."

"The impacts of the pandemic continue to accelerate the shift we predicted years ago to an edge-centric, cloud-enabled and data-driven world," he continued. "Now, more than ever, companies

need secure connectivity, faster insights from data, and a cloud experience everywhere. We expect those trends to continue. Digital transformation is no longer a priority but a strategic imperative."

"We are once again raising our full-year guidance to reflect the continued momentum in the demand environment and our strong execution," added CFO Tarek Robbiati. "This marks the fourth increase in our outlook since our Securities Analyst Meeting in October 2020."

HPE said it will pay the regular cash dividend of $0.12 on October 6 and is targeting $250 million of share repurchases in Q4. While overall revenue growth of 3% sequentially was a little bit below what we had expected, we continue to think HPE is heading in the right direction. True, the company is heavily dependent on corporate and government spending, which can change quickly in this environment; however, we think the long-term demand in 5G networking and subscription revenue growth potential will remain strong. Shares yield 3.1% and the forward P/E is around 8, a figure substantially lower than the rest of the tech sector. Shares have gained more than 30% this year and our Target Price has been bumped up to $20.