

Market Commentary, Monday, November 8, 2021

November 8, 2021

EXECUTIVE SUMMARY

Newsletter Trades – 8 Buys for 4 Portfolios

Dow 36000 – Glassman Proved Correct

Fear – Glassman and Many Others Afraid of Stocks

Patience – The Longer the Hold, the Lower the Chance of Loss

Econ News – Strong ISM & Jobs Numbers; Healthy Outlook

FOMC Meeting – No Change in Rates, Despite Improving Economy, But Taper Will Commence

Interest Rates – Very Supportive of Equities from an Earnings Yield and Dividend Perspective

Sentiment – Still Not a Ton of Optimism

Stock News – Updates on ALB, QCOM, GT, REG, CVS, CMI, ETN, ALL, EOG, MOS, NTR, PFE, ZBH & LEG

Market Review

As indicated in the November edition of *The Prudent Speculator*, we bought the following on Thursday, November 4, for our real-money newsletter portfolios:

TPS Portfolio

52 **3M** (MMM – \$181.80) at \$182.5789

42 **Lockheed Martin** (LMT – \$339.89) at \$332.50

Buckingham Portfolio

106 **Hasbro** (HAS – \$96.00) at \$93.98

12 **Digital Realty** (DLR – \$155.47) at \$157.09

We also added the following to our two hypothetical accounts on November 4:

Millennium Portfolio

352 **Citizens Financial** (CFG – \$47.79) at \$48.24

54 **Bristol-Myers Squibb** (BMY – \$59.45) at \$59.44

136 **TotalEnergies** (TTE – \$50.01) at \$50.34

PruFolio

166 **Cohu** (COHU – \$35.93) at \$35.50

In one of the most news-filled weeks in memory, stocks enjoyed handsome gains, starting the Most Wonderful Time of the Year with a bang,...

THE PRUDENT SPECULATOR

SEASONALLY FAVORABLE TIME OF YEAR: NOVEMBER THROUGH APRIL



History is merely a guide and not the gospel, but we like that the calendar suggests there have been plenty of treats for investors, on average, for the six-month periods beginning the day after Halloween.

Seasonally Favorable Six Months - October 31 through April 30

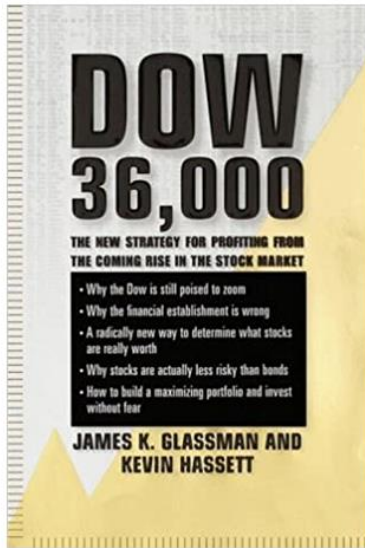
	S&P 500	Russell 3000 Value	Russell 3000 Growth		S&P 500	Russell 3000 Value	Russell 3000 Growth
Arithmetic Average	7.73	8.35	7.62	Geometric Average	7.33	7.85	7.08
20/21	28.85	37.64	25.08	05/06	9.64	13.27	8.19
19/20	-3.16	-14.31	5.21	04/05	3.28	6.28	0.87
18/19	9.76	7.61	11.81	03/04	6.27	8.23	4.13
17/18	3.82	1.86	5.66	02/03	4.48	5.40	4.49
16/17	13.32	12.18	15.47	01/02	2.31	10.27	-1.31
15/16	0.43	1.87	-1.64	00/01	-12.07	0.78	-25.83
14/15	4.40	2.82	6.59	99/00	7.19	-0.39	19.34
13/14	8.36	9.24	6.49	98/99	22.32	18.77	24.98
12/13	14.42	16.33	13.93	97/98	22.49	20.10	21.71
11/12	12.77	11.61	13.86	96/97	14.72	12.85	11.03
10/11	16.36	17.53	17.77	95/96	13.76	14.30	13.83
09/10	15.66	18.79	16.50	94/95	10.47	9.23	9.66
08/09	-8.53	-13.21	-1.68	93/94	-2.32	-1.68	-3.05
07/08	-9.64	-9.97	-9.68	92/93	6.60	14.79	0.74
06/07	8.60	9.48	8.34	91/92	7.31	8.76	6.14

% Total Return October 31 - April 30. Source Kovitz using data from Bloomberg

...and sending the Dow Jones Industrial Average above the 36000 level that was prophesized by James K. Glassman back in 1999.



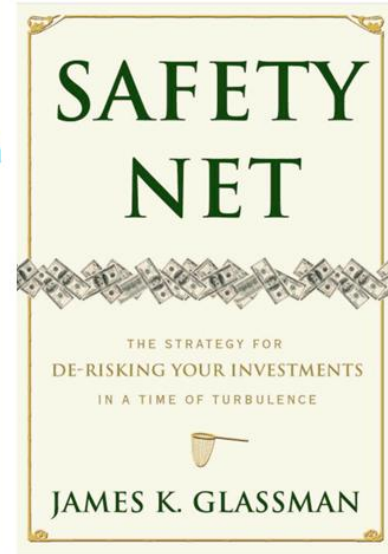
There is no assurance that the Dow Jones Industrial Average will continue its upward trajectory, but James K. Glassman's famous Dow 36,000 projection has been hit. Alas, he advised loading up on stocks at Dow 10,000 in 1999 and de-risking portfolios at Dow 12,000 in 2011...the only problem with market timing is getting the timing right.



September 20, 1999

“In theory, historical averages show that stocks are a good buy if you can hang on through the miserable periods. But most investors find that excruciatingly difficult to do—a fact that I never fully appreciated in my 30 years of writing about investing.”

— James K. Glassman,
February 24, 2011



February 22, 2011

Not surprisingly, Mr. Glassman was in the news this week, penning a piece for *The Wall Street Journal*, entitled, *Get Ready for Dow One Million*. He wrote, “In 1999 Kevin Hassett and I published a book, ‘*Dow 36,000: The New Strategy for Profiting From the Coming Rise in the Stock Market*.’ We thought the market would reach that milestone much sooner than it did. I think we underestimated human psychology. People are exhilarated by the vagaries of stock prices, but they are, at the same time, scared to death of losing what they’ve accumulated. The equity risk premium may be too high for a rational person examining history and economics, but it is a constant fact of financial life. And that’s a good thing! The high returns to stocks are the reward you get for conquering your fears and your greed.”



Peter Tuchman @EinsteinWallSt · 8h
Record close ... DOW 36,000
Even caught me off guard ... boom Shaka laka giddyup



Why the Dow 36000 Forecast Was Right

By Kenneth Rogoff
I remember Jason Glassman and economist Kevin Hassett took to their posts in March 2018 to discuss concerns of a stock market bubble, and of a rally for who stocks could still go as high as. They were all really excited that stocks could rise that high. They were all really excited that stocks could rise that high. They were all really excited that stocks could rise that high.

Interesting that the milestone caught Wall Street's most photographed trader, Peter Tuchman, off guard, and we fear that James K. Glassman, he of Dow 36,000 fame, may have missed out on the rally, even as his latest Wall Street Journal OpEd is entitled, Get Ready for Dow One Million.

Miracle of Compounding - Dow 50000 by 2027
(Initial Value of Dow Jones Industrial Average = 36328, November 5, 2021)

Table with columns: Inflation, Gov't Bonds, Dow Jones Industrial Average Price Return, Corporate Bonds TR, S&P 500 TR, Fama/French Dividend Stocks TR, Fama/French Value Stocks TR. Rows show data from Nov-21 to Nov-81.

To be sure, the miracle of compounding makes such a seemingly pie-in-the-sky prediction reasonable, as the Dow Jones Industrial Average since 1927 has enjoyed a price return (i.e. not including dividends or the effect of reinvested dividends) of 5.9% per annum. Simple arithmetic shows that Dow 1,000,000 would be reached in the year 2079 were the 5.9% average annualized rate of growth to continue for the next 58 years.

Of course, we are not sure that Mr. Glassman has enjoyed much of the rewards offered by the equity market over the last 22 years, as he told Wall Street Journal columnist Jason Zweig, "On the one hand, I'm very happy about the Dow finally hitting 36000. We dared to say this could happen at a time when many people didn't think it would ever be possible. On the other hand, it's very clear to me that the thesis at the foundation of the book was faulty. People are afraid of stocks. We need to recognize that."

Certainly, Mr. Glassman is not the only one to have difficulty in conquering their fears, given that more than \$13 trillion is wasting away in negative-yielding sovereign 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.

Negative Interest Rates

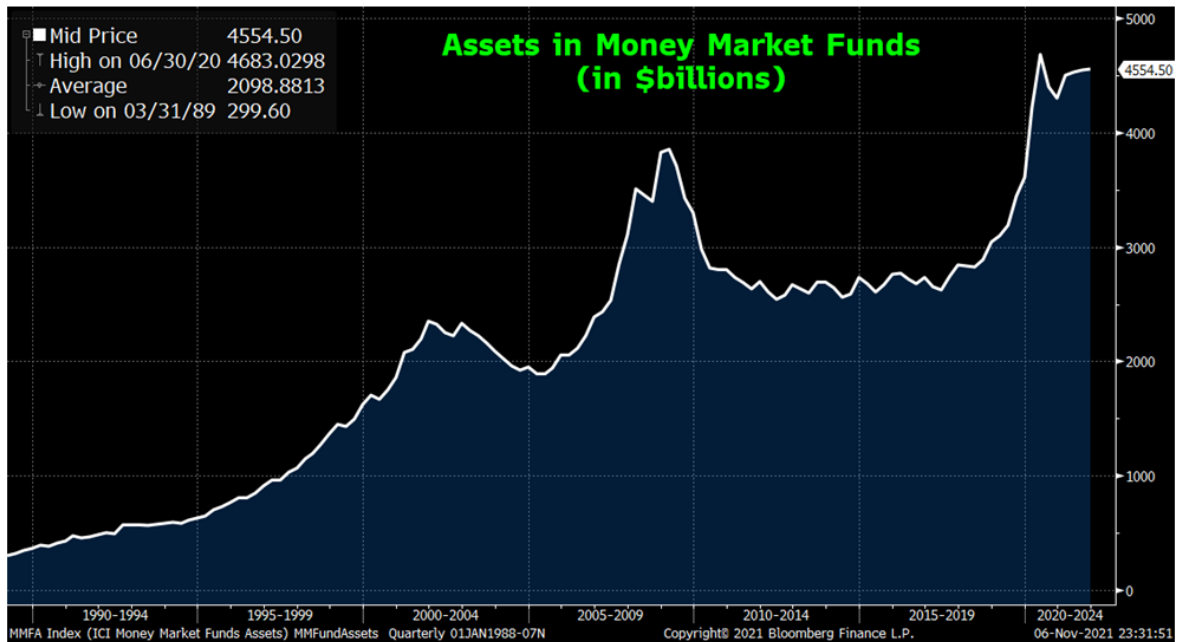
The supply of bonds yielding below zero stands at more than \$13 trillion



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



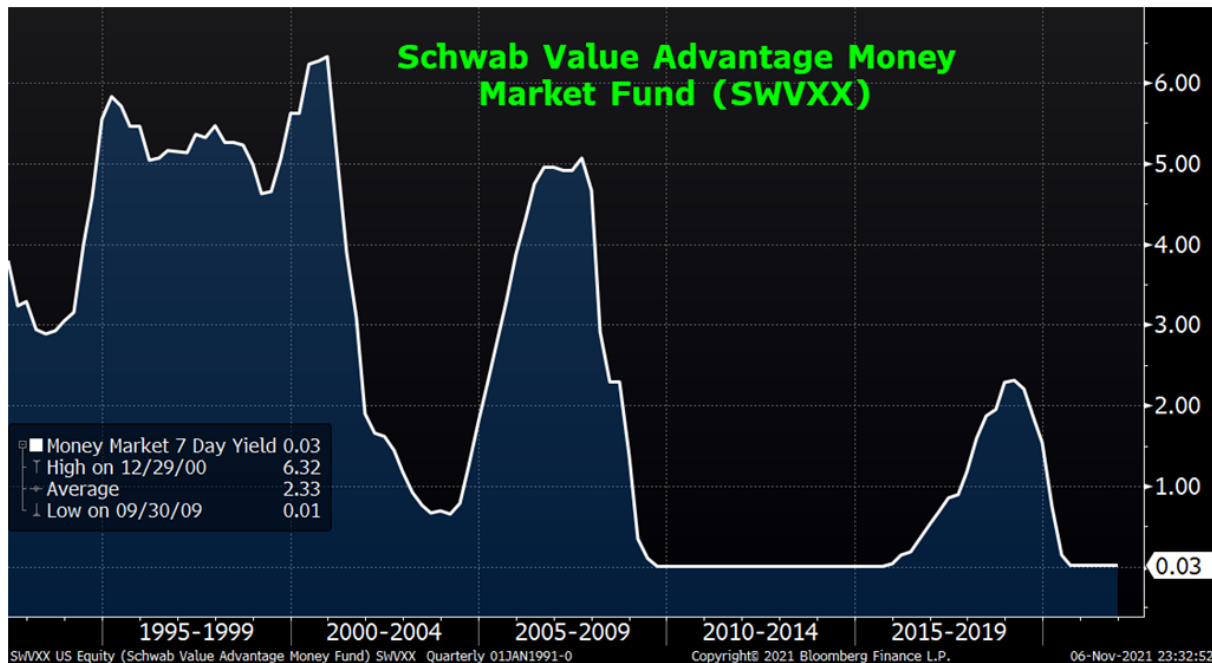
Despite yields near zero, total assets in money market funds have seldom been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.



...where a good yield might be 0.03%, an interest rate where money doubles in 2,311 years.



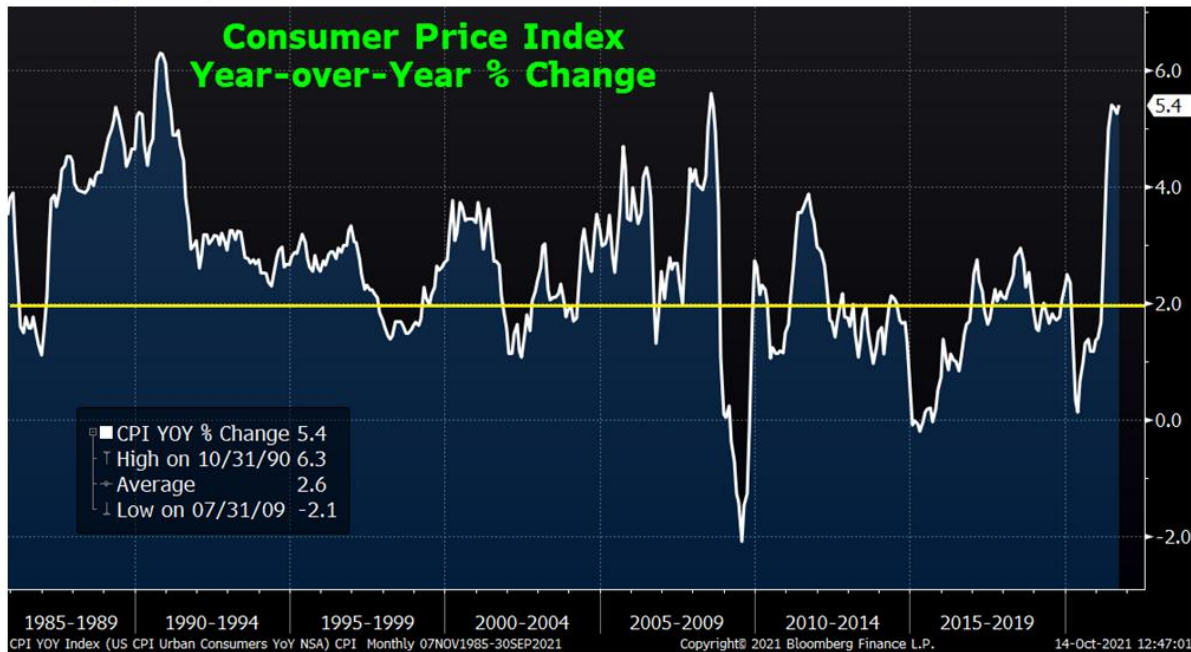
The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.03% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2007 and 2000.



We respect that many institutional investors must own government bonds and that not all investment dollars can tolerate much in the way of risk, but with elevated inflation levels, we are left scratching our heads that so many are willing to accept real (inflation-adjusted) rates of return well below zero.



Inflation in the U.S. soared in September, with the Consumer Price Index rising by 5.4% on a year-over-year basis and 0.4% compared to the August reading, with hefty price hikes for groceries, gasoline, heating fuels, new vehicles, rent and furniture the main drivers.



True, with the market averages at all-time highs, it is easy to say that equities are the place to be, but such has been the case for more than nine decades. That does not mean that stocks are without risk, as volatility is always part of the process, with 5% setbacks happening three times per year on average and 10% corrections taking place every 11 months on average,...



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%	113.2%	993	27	3.4	3/23/2020	11/5/2021
17.5%	68.1%	581	39	2.3	3/23/2020	11/5/2021
15.0%	66.7%	564	45	2.0	3/23/2020	11/5/2021
12.5%	45.0%	339	72	1.3	3/23/2020	11/5/2021
10.0%	35.4%	248	98	0.9	3/23/2020	11/5/2021
7.5%	23.8%	150	157	0.6	9/23/2020	11/5/2021
5.0%	14.8%	73	307	0.3	10/4/2021	11/5/2021

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	306	0.3	9/2/2021	10/4/2021

From 02.20.28 through 11.05.21. 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 an 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	13.2%	26.0%
Growth Stocks	9.9%	21.3%
Dividend Paying Stocks	10.7%	18.0%
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	3.0%	1.8%

From 06.30.27 through 09.30.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

...but history shows that the chance of loss diminishes greatly the longer the holding period.



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	714	417	63.1%
3 Months	764	365	67.7%
6 Months	800	326	71.0%
1 Year	818	302	73.0%
2 Year	923	185	83.3%
3 Year	957	139	87.3%
5 Year	959	113	89.5%
7 Year	1012	36	96.6%
10 Year	978	34	96.6%
15 Year	952	0	100.0%
20 Year	892	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	718	413	63.5%
3 Months	785	344	69.5%
6 Months	815	311	72.4%
1 Year	851	269	76.0%
2 Year	945	163	85.3%
3 Year	938	158	85.6%
5 Year	986	86	92.0%
7 Year	1006	42	96.0%
10 Year	977	35	96.5%
15 Year	952	0	100.0%
20 Year	892	0	100.0%

From 07.31.27 through 09.30.21. 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

Anything can happen as we move forward and past performance is no guarantee of future returns, so we are always braced for downturns. However, news out last week, we think, should bolster investor optimism for the balance of 2021 and 2022, given the apparent success (89% efficacy!) of the experimental COVID-19 antiviral pill developed by Pfizer, adding to the positive trial data released a month ago for a different antiviral formulation from Merck. If approved, some believe these drugs will move COVID-19 from pandemic to endemic as the calendar turns to the new year.



HEALTH

Experimental Pfizer pill prevents Covid hospitalizations and deaths



By Matthew Herzer • Nov. 5, 2021

Reprints



An experimental antiviral pill from Pfizer reduced Covid patients' risk of death and hospitalization by 89% in a large study.

JEFF KOVALEK/TATP VIA GETTY IMAGES

An experimental antiviral pill developed by Pfizer reduced the risk of death and hospitalization by 89% in patients who were newly diagnosed with Covid-19 in a large study, the company said Friday.

The development of oral medicines that can be used to treat Covid early on could blunt the impact of the pandemic.

Nahid Bhadelia, the founding director of the Center for Emerging Infectious Diseases Policy & Research at Boston University, called oral antiviral pills "incredibly important" because existing treatments such as monoclonal antibodies must be given intravenously or as shots.

"With an oral antiviral, patients have more time and greater access to a treatment that will keep them out of the hospital," Bhadelia said. "But the promise of oral antivirals will only be recognized if they're available at your local pharmacy, and you can afford it, and you can get the test that tells you that you're positive for Covid, so you can actually take advantage of this drug. So, the promise is there, but the rest of the pieces need to come together."

HEALTH

Merck's antiviral pill reduces hospitalization of Covid patients, a possible game-changer for treatment



By Matthew Herzer • Oct. 1, 2021

Reprints



KENA EDWARDS/GETTY IMAGES

An investigational antiviral pill reduced the chances that patients newly diagnosed with Covid-19 would be hospitalized by about 50%, a finding that could give doctors a desperately needed new way to treat the sick, the drug maker Merck announced Friday.

A five-day course of molnupiravir, developed by Merck and Ridgeback Biotherapeutics, reduced both hospitalization and death compared to a placebo. In the placebo group, 53 patients, or 14.1%, were hospitalized or died. For those who received the drug, 28, or 7.3%, were hospitalized or died.

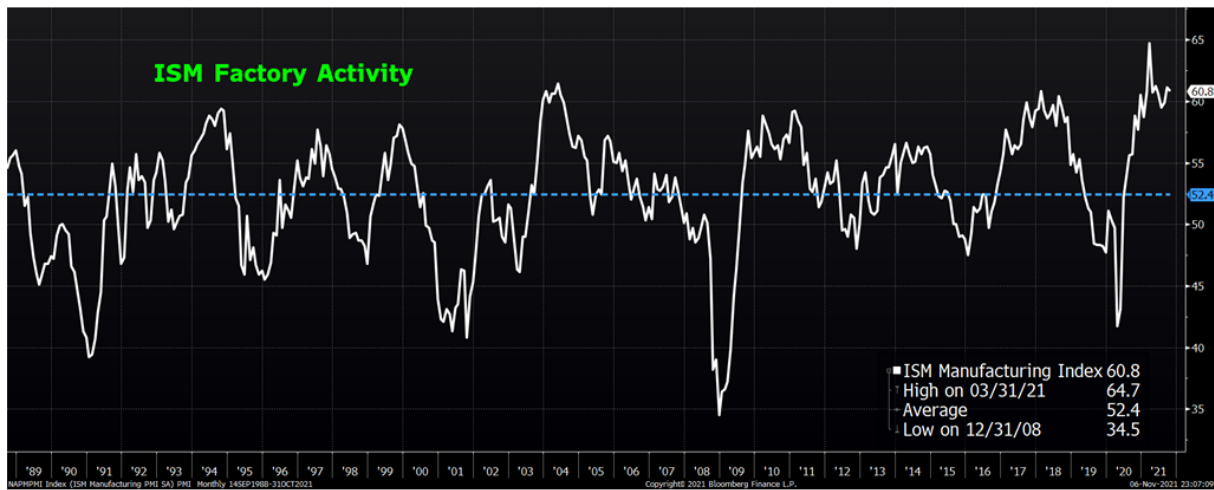
A simple oral medication to help treat Covid-19 has been an elusive goal since the start of the pandemic. Other drugs, including Gilead's remdesivir, have also been shown to reduce hospitalizations if given early in the course of disease, but must be given intravenously.

"If this pans out, it will change the landscape," said Andy Pavia, chief of the Division of Pediatric Infectious Diseases at University of Utah. "There's still a lot we need to know. What does the side effect profile look like? Do we know how to dose it in populations that are different such as children and the obese? But as a top-line result, this is definitely exciting."

In addition, the economic numbers released last week were very good and better than forecast, be it data on the health of the factory sector,...



The latest data point on the health of the manufacturing sector came in at a better-than-expected 60.8 in October, down from a reading of 61.1 in September, 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 5.0% increase in real gross domestic product (GDP) on an annualized basis.”



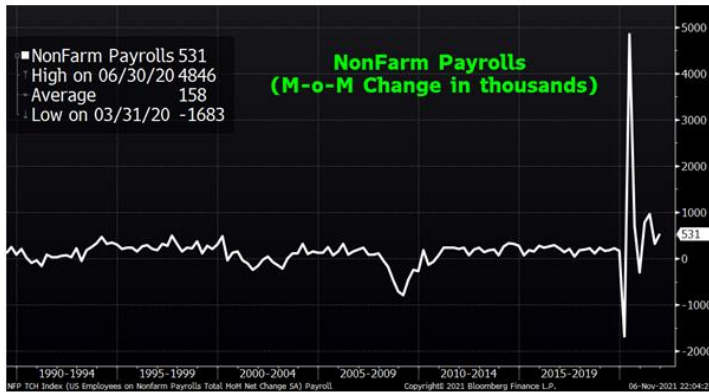
...or the even-more-important services sector.



The latest read on the health of the service sector jumped to 66.7 in October, thrashing forecasts, hitting the highest level in the history of the index and suggesting 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 6.1% increase in real gross domestic product (GDP) on an annualized basis.”



And, the critical employment situation report for October showed more jobs created than predicted, along with a big upward revision in the payrolls figures for the two months prior,...



Economists were looking for a big gain of 450,000 payrolls, so the increase of 531,000 in October beat expectations and the August and September tallies were revised higher by a combined 235,000 jobs. Restaurants and factories led the charge, while wages continued to rise as employers struggled to fill positions, with early retirements, lack of child care, virus fears and Uncle Sam's largesse keeping many folks from returning to work.

...while the unemployment rate fell to a new pandemic low.



With more new jobs created than expected, the unemployment rate for October improved again, coming in at 4.6%, a fresh pandemic low and down from 4.8% in September. Thanks to an increase in female workers, the labor force increased by 104,000. Seventeen months ago, the jobless rate hit a record 14.8%, so the labor situation has improved considerably, and first-time filings for jobless benefits in the latest week dipped to 269,000, a new pandemic low.

While the labor numbers had yet to come out, Federal Reserve Chair Jerome H. Powell sounded relatively upbeat in his economic comments prior to his regular press conference this past Wednesday:

Economic activity expanded at a 6.5 percent pace in the first half of the year, reflecting progress on vaccinations, the reopening of the economy, and strong policy support. In the third quarter, real GDP growth slowed notably from this rapid pace. The summer's surge in COVID cases from the Delta variant has held back the recovery in the sectors most adversely affected by the pandemic, including travel and leisure. Activity has also been restrained by supply constraints and bottlenecks, notably in the motor vehicle industry. As a result, both household spending and business investment flattened out last quarter. Nonetheless, aggregate demand has been very strong this year, buoyed by fiscal and monetary policy support and the healthy financial positions of households and businesses. With COVID case counts receding further and progress on vaccinations, economic growth should pick up this quarter, resulting in strong growth for the year as a whole.

Conditions in the labor market have continued to improve and demand for workers remains very strong. As with overall economic activity, the pace of improvement slowed with the rise in COVID cases. In August and September, job gains averaged 280,000 per month, down from an

average of about 1 million jobs per month in June and July. The slowdown has been concentrated in sectors most sensitive to the pandemic, including leisure and hospitality and education. The unemployment rate was 4.8 percent in September; this figure understates the shortfall in employment, particularly as participation in the labor market remains subdued.

Some of the softness in participation likely reflects the aging of the population and retirements. But participation for prime-aged individuals also remains well below prepandemic levels, in part reflecting factors related to the pandemic, such as caregiving needs and ongoing concerns about the virus. As a result, employers are having difficulties filling job openings. These impediments to labor supply should diminish with further progress on containing the virus, supporting gains in employment and economic activity.

Those remarks followed the release of the Federal Open Market Committee's latest statement on monetary policy,...

THE PRUDENT SPECULATOR
FOMC STATEMENT: 11.03.21



The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the summer's rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting factors that are expected to be transitory. Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

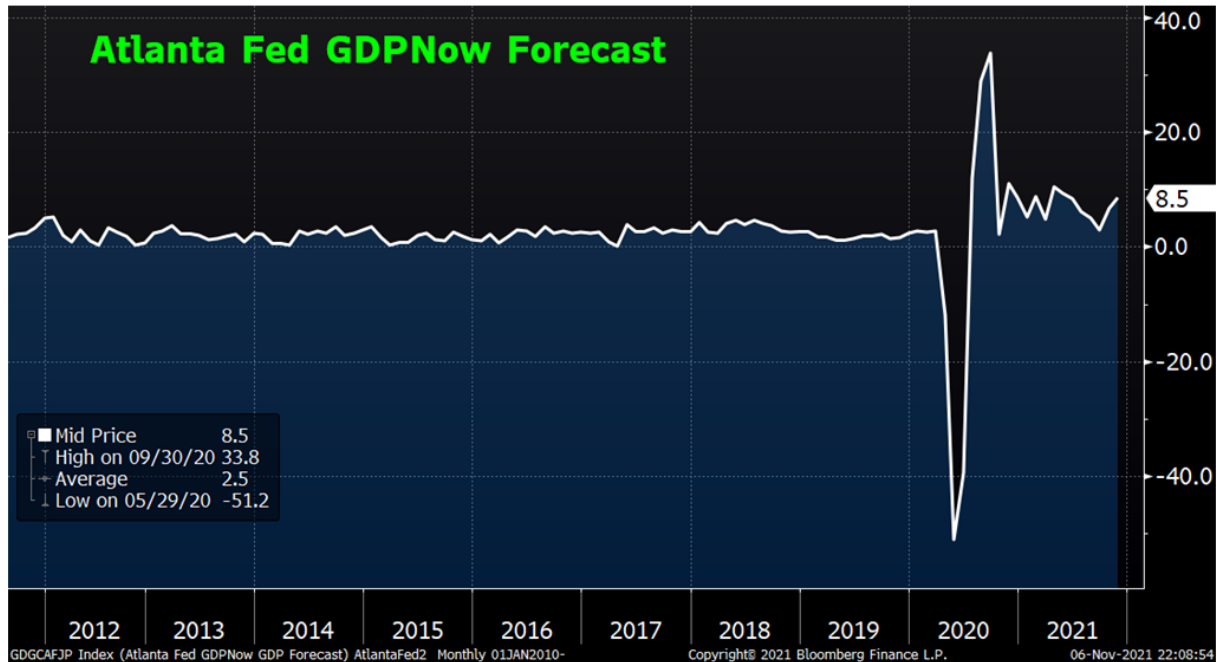
The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In light of the substantial further progress the economy has made toward the Committee's goals since last December, the Committee decided to begin reducing the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities. Beginning later this month, the Committee will increase its holdings of Treasury securities by at least \$70 billion per month and of agency mortgage-backed securities by at least \$35 billion per month. Beginning in December, the Committee will increase its holdings of Treasury securities by at least \$60 billion per month and of agency mortgage-backed securities by at least \$30 billion per month. The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook. The Federal Reserve's ongoing purchases and holdings of securities will continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

...in which the big improvement in the economic outlook following the subpar, delta-variant-impacted third quarter,...



While Q1 and Q2 2021 saw an acceleration, the economic rebound slowed in Q3 to 2.0%, but the Atlanta Fed's current projection for Q4 2021 GDP growth on an annualized basis stands at a robust 8.5%.



...is allowing the long-awaited Fed Tapering to begin. Chair Powell explained:

Last December, the Committee stated its intention to continue asset purchases at a pace of at least \$120 billion per month until substantial further progress has been made toward our maximum employment and price stability goals. At today's meeting, the Committee judged that the economy has met this test, and decided to begin reducing the pace of its asset purchases.

Beginning later this month, we will reduce the monthly pace of our net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities. We also announced another reduction of this size in the monthly purchase pace starting in mid-December, since that month's purchase schedule will be released by the Federal Reserve Bank of New York prior to our December FOMC meeting. If the economy evolves broadly as expected, we judge that similar reductions in the pace of net asset purchases will likely be appropriate each month, implying that increases in our securities holdings would cease by the middle of next year. That said, we are prepared to adjust the pace of purchases if warranted by changes in the economic outlook. And even after our balance sheet stops expanding, our holdings of securities will continue to support accommodative financial conditions.

As the tapering has been well telegraphed, it does not seem that investors are overly concerned about the Fed removing some of its accommodation, though those worried about a so-called Taper Tantrum need only look back at what took place the previous time such an event played out.

THE PRUDENT SPECULATOR

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



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



We respect that some believe that an eventual rise in interest rates will prove problematic, but Chair Powell was quick to dispel any notions that such an increase was imminent, “Our decision today to begin tapering our asset purchases does not imply any direct signal regarding our interest rate policy. We continue to articulate a different and more stringent test for the economic conditions that would need to be met before raising the federal funds rate.”

We also note that decades of market history show that rising interest rates have proven to benefit Value stocks, while, not surprisingly, hurting fixed income investments,...



Rising Long-Term Government Rates - Annual Returns Review

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

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

Falling Long-Term Government Rates - Annual Returns Review

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

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

...and we believe that rates would have to rise substantially before equities would lose some of their appeal,...



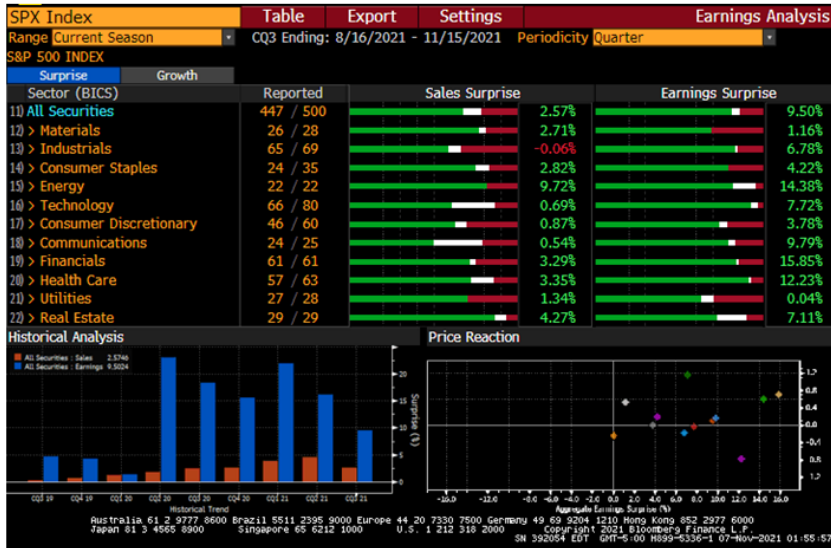
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. 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 (3.86% vs. 1.45% 10-Year) and S&P 500 dividend yield of 1.27%.



...especially as the outlook for corporate profit growth remains very robust.



Q3 earnings reporting season has turned out to be very good vs. analyst projections that were still too pessimistic in their top- and bottom-line estimates. Thus far, 81.4% of the S&P 500 companies have topped EPS expectations and 67.9% have exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	\$57.07	\$219.04
9/30/2022	\$56.27	\$212.68
6/30/2022	\$54.29	\$208.05
3/31/2022	\$51.41	\$205.81
12/31/2021	\$50.71	\$201.81
9/30/2021	\$51.64	\$189.28
ACTUAL		
6/30/2021	\$52.05	\$175.54
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

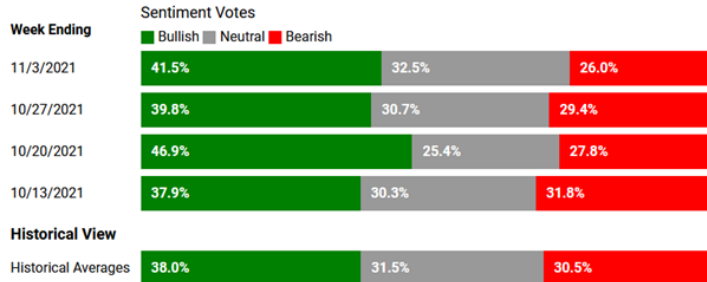
Source: Standard & Poor's. As of 11.04.21

So, nothing has changed in our optimism for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks. We like that there still seems to be little in the way of investor euphoria for the broad market,...



AAIL Investor Sentiment Survey

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



The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAIL Sentiment Survey rising 1.7 points from the week prior and the number of Bears falling 3.4 points is a modest negative. The 15.5-point Bull-Bear spread is in the 7th decile, where future returns have been OK.

AAIL Bull-Bear Spread

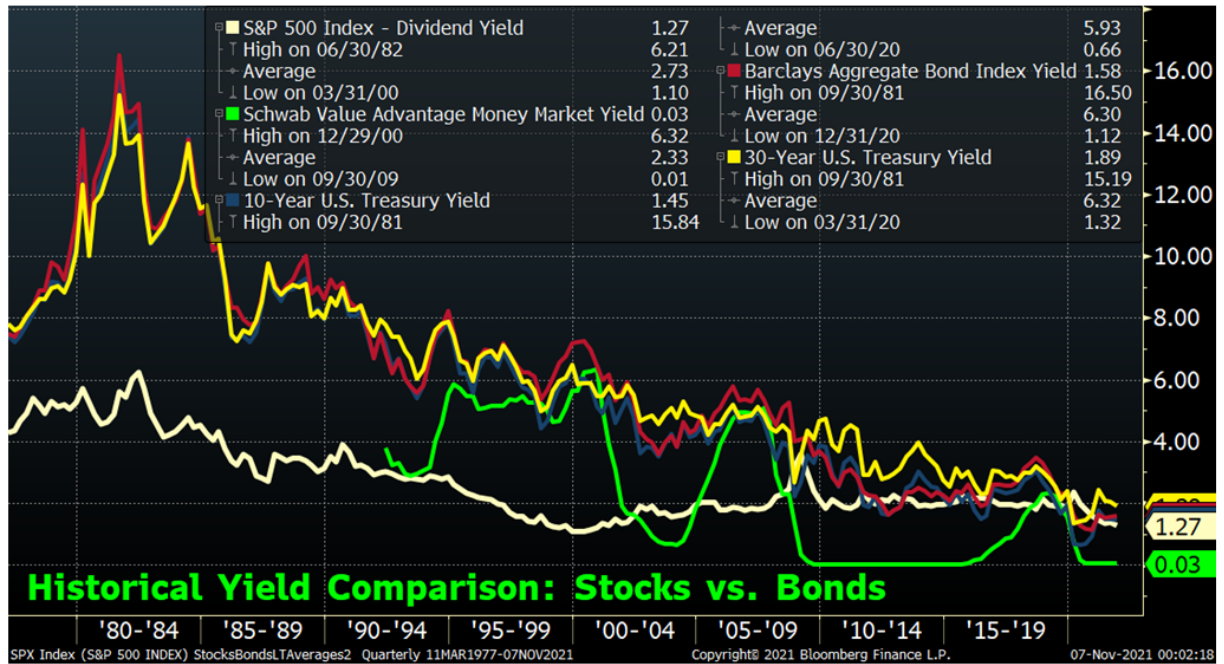
Decile	Low	High	R3K Count	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Reading of the Range	Reading of the Range		Next 1-Week Arithmetic Average TR	Next 1-Week Geometric Average TR	Next 1-Month Arithmetic Average TR	Next 1-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 3-Month Geometric Average TR	Next 6-Month Arithmetic Average TR	Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	911	0.27%	0.23%	1.27%	1.14%	3.66%	3.27%	7.16%	6.41%
ABOVE	8.1	62.9	875	0.17%	0.15%	0.51%	0.42%	1.97%	1.71%	4.58%	4.10%
Ten Groupings of 1786 Data Points											
1	-54.0	-15.0	182	0.55%	0.49%	2.15%	1.91%	5.86%	5.31%	10.63%	9.40%
2	-14.9	-7.3	175	0.35%	0.32%	1.00%	0.87%	3.82%	3.47%	7.08%	6.31%
3	-7.3	-1.3	179	0.33%	0.30%	1.49%	1.39%	3.26%	2.86%	7.17%	6.53%
4	-1.2	3.0	180	0.07%	0.04%	1.10%	1.01%	3.01%	2.65%	6.45%	5.92%
5	3.0	8.0	195	0.06%	0.03%	0.65%	0.56%	2.41%	2.16%	4.64%	4.13%
6	8.1	12.1	160	0.11%	0.09%	0.39%	0.26%	1.64%	1.40%	4.53%	4.04%
7	12.1	16.5	179	0.20%	0.18%	0.70%	0.61%	2.48%	2.23%	5.13%	4.69%
8	16.5	22.0	186	0.17%	0.15%	0.70%	0.63%	2.12%	1.85%	6.01%	5.59%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.06%	1.78%	4.39%	3.81%
10	29.2	62.9	179	0.27%	0.25%	0.31%	0.24%	1.51%	1.28%	2.78%	2.34%

From 07.31.87 through 11.04.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

...while we think that equities in general compare very favorably from an income perspective to yields on competing investments,...



Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.27%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 42 times the yield of a “generous” Money Market Fund!**



...with dividend yields on our portfolios particularly lucrative.



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	15.7	14.1	1.2	2.6	2.1
ValuePlus	16.4	14.1	1.6	2.6	2.0
Dividend Income	14.3	13.3	1.0	2.4	2.7
Focused Dividend Income	15.3	14.0	1.2	2.6	2.4
Focused ValuePlus	15.4	14.7	1.6	3.1	2.1
Small-Mid Dividend Value	12.9	11.9	0.8	1.9	2.3
Russell 3000	29.3	23.8	2.9	4.6	1.2
Russell 3000 Growth	42.8	34.7	5.2	13.6	0.7
Russell 3000 Value	21.6	17.6	1.9	2.6	1.9
Russell 1000	27.0	23.3	3.1	4.7	1.2
Russell 1000 Growth	39.9	33.5	5.6	14.5	0.7
Russell 1000 Value	19.7	17.3	2.0	2.7	1.9
S&P 500 Index	25.9	22.7	3.1	4.8	1.3
S&P 500 Growth Index	35.3	30.6	5.9	11.4	0.7
S&P 500 Value Index	19.5	17.2	2.0	2.8	2.0
S&P 500 Pure Value Index	12.3	11.0	0.8	1.4	2.2

As of 11.06.21. 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.

No doubt, the secret to success in stocks will remain not to get scared out of them as investing always will be an emotional roller-coaster,...



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



Of course, Wall Street's most photographed trader (per *Marketwatch*) may be no better visual aid to remind folks that investing is an emotional roller coaster. For example, in 2019, Mr. Tuchman was positively giddy about the Dow breaking through 27,000 in July, yet a few weeks later he had seemingly pulled all his hair out as stocks plunged after an escalation in the trade skirmish.

...but we suspect that in the fullness of time, Peter Tuchman, he who never met a camera he didn't like, but somehow didn't have his Dow 36000 cap ready for the big moment last week (see our third slide of this *Market Commentary*), will get more chances to add new haberdashery to his collection!

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://theprudentpeculator.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 offer updates on a baker's dozen plus one of our stocks that reported quarterly results last week.

Lithium producer **Albemarle** (ALB – \$272.51) continued its great run this year after reporting Q3 results. Shares gained more than 4%, pushing the YTD gain to near 85%, thanks to EPS of \$1.05 (vs. \$0.76 est.) and revenue of \$831 million (vs. \$766 million est.). With one quarter left in the year, ALB's raised projections put the adjusted EPS range between \$3.85 and \$4.15 and revenue between \$3.3 billion and \$3.4 billion.

CEO Kent Masters said, “During our recent Investor Day, we did a deep dive into our accelerated growth strategy and provided color on how we think about the near-term expansion of our Lithium business as well as our disciplined investment approach. Since that event in early September, we are pleased to have announced several updates on those efforts. This includes signing an agreement to acquire Guangxi Tianyuan New Energy Materials, or Tianyuan, which owns a recently built conversion plant near Qin Zhou. We are totaling to ensure the plant operates as advertised and expect to close this transaction in the first quarter of next year. This puts us on track for first sales from this plant in the first half of next year. In addition to this plant, we have signed two recent agreements for investments in China to support two greenfield projects, each initially targeting 50,000 metric tons per year. These projects position us for initial added conversion capacity of up to 150,000 metric tons of lithium hydroxide on an annual basis to meet our customers’ growing demands. In addition, our MARBL joint venture announced the restart of the Wodgina Lithium Mine in Western Australia.”

CFO Scott Tozier added, “Lithium’s full year 2021 adjusted EBITDA is now expected to grow in the mid- to high teens year-over-year. That’s up from our previous guidance due to higher volumes and pricing. The volume growth is driven primarily by tolling. And our full year average realized pricing is now expected to be flat to slightly higher compared to 2020. As a reminder, most of our battery-grade lithium sales are on long-term contracts with structured pricing mechanisms that are partially exposed to the market. We also benefit from stronger market pricing on shorter-term technical grade sales and on spot and tolling sales of battery-grade lithium... Overall, market conditions are improving but volumes and Catalysts are not expected to return to pre-pandemic levels until late 2022 or 2023. In total, we expect EBITDA margins to be lower in the fourth quarter due to higher raw materials, energy and freight costs across all three of our businesses. We are closely watching several key risk factors, including global supply chain disruptions, global impacts of the energy rationing in China and chip shortages. Supply chain and logistics challenges are the most immediate. Our teams are working day and night to navigate these port issues, the lack of drivers and upstream supply disruptions to ensure our customers get their orders on time. We also continue to monitor the global situation with regard to chip shortages. We recognize that the auto industry has been struggling with those shortages. But to date, we have not seen a direct impact on either our lithium or bromine orders.”



Lithium Overview



YoY Q3 Performance Drivers

- Net sales increased 35% (price³ +5%, volume +30%); adjusted EBITDA up 28%
- Adjusted EBITDA benefited from higher net sales and higher volumes at Talison JV
- Sales volumes increased primarily due to tolling production to help meet growing customer demand
- Further volume growth constrained by lack of inventory as customer orders were pulled forward into the first half of the year

FY 2021 Outlook

- FY 2021 adjusted EBITDA expected to be up mid- to high-teens Y/Y
- Volumes expected to increase mid-teens Y/Y driven primarily by tolling
- Average realized pricing expected to improve sequentially due to tightening market conditions, and full-year pricing will be flat to slightly up overall compared to 2020
- Higher costs related to project start-ups and tolling, partially offset by productivity improvements; FY 2021 average margin expected to remain below 35%

Drivers/Sensitivities

- Energy storage (~60% of Li sales²): Primary driver - EV sales in Europe and China
 - Potential 1 to 2 quarter lag behind EV production
- Specialties and TG (~40% of Li sales²): Primary driver - consumer spending and industrial production - less than 1 quarter lag

15

Even though the run over the last twelve months has pushed near-term valuations far beyond what most might consider Value, we continue to think that ALB will see long-term benefits from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. As a result of our bullish long-term outlook, we think analyst expectations are too conservative and we continue to hold ALB in our broadly diversified portfolios. Having taken money off the table previously, our Target Price for ALB has been raised to \$286.

Semiconductor designer **Qualcomm** (QCOM – \$163.03) earned \$2.55 per share in fiscal Q4 2021, blowing away estimates of \$2.26 and sending the shares soaring to a 22% advance last week. QCOM had adjusted sales of \$9.32 billion (vs. \$8.86 billion est.) and the company reported a fifth consecutive quarter of 100%+ year-over-year growth in the chipset business, in addition to strong momentum in Internet of Things, edge networking and industrial markets.

CEO Cristiano Amon commented, “We demonstrated revenue diversification with combined RF front-end, automotive and IoT fiscal '21 revenues exceeding \$10 billion, an increase of 69% year-over-year. Going forward, our chipset business represents the largest growth engine for us as virtually all devices at the edge adopt mobile technologies. We have the relevant technologies required to continue to lead in mobile and the connected intelligent edge. And as the edge gains

scale in connectivity and adopts own device artificial intelligence, we're well positioned to become a leader in AI processing.”

Mr. Amon continued, “As we have noted throughout the year, we continue to see incredibly strong demand across all our technologies as the current environment is accelerating the scale of connectivity and processing at the edge. We still expect material improvements to our supply by the end of the calendar year, and our second sourcing initiatives remain on track.”

CFO Akash Palkhiwala added, “For calendar 2021, we are narrowing the range for 5G handsets to 500 million to 550 million units. We are now forecasting mid- to high-single-digit growth in global 3G/4G/5G handsets relative to calendar 2020. For the first fiscal quarter, we are forecasting revenues of \$10 billion to \$10.8 billion and non-GAAP EPS of \$2.90 to \$3.10. In QCT, we expect revenues of \$8.4 billion to \$8.9 billion and EBT margins of 32% to 34%. At the midpoint, this implies year-over-year revenue growth of 32% and EBT dollar growth of 49%. The sequential revenue growth is driven by handsets due to higher demand, primarily for our Snapdragon chipsets in Android devices. Following a record performance in the fourth quarter, we expect non-handset revenues to remain in line sequentially. Consistent with our previous guidance, we expect QTL revenues of \$1.6 billion to \$1.8 billion and EBT margins of 74% to 78%. This forecast assumes sequential unit growth in line with historical trends.”

QCOM expects EPS growth for fiscal 2022 to exceed 20%, with QCT accounting for much of the growth, with the terrific outlook pushing the once-very-cheap valuation up. Still, the stock remains firmly planted in Value territory (especially for a Tech firm), with metrics like a forward P/E ratio under 16, free cash flow yield near 5% and dividend yield of 1.7%. Analysts project QCOM can earn north of \$11 per share in 2023, driven by share repurchases (QCOM spent \$3.4 billion last quarter on buybacks and \$3.0 billion on dividends) and continued global demand for Android devices. Surprisingly, the supply chain challenges that have dogged many other companies over the past year have not been a problem for QCOM. Mr. Palkhiwala explained, “We're definitely seeing some mismatch of parts in the short term at some of our customers, but you should think of those as really timing issues. The other thing to keep in mind is that we are focusing really on the premium and high-tier units. And so when our customers have supply mismatch, they actually end up supplying the premium and high-tier devices. So our chips and our devices are still being used, and it's not something that's a big factor for us in the short term.” Our Target Price for QCOM has soared to \$202.

Ever-volatile shares of **Goodyear Tire** (GT – \$24.14) jumped more than 14% on Friday as the tire concern posted EPS of \$0.72 in Q3, nearly 3 times the analyst estimate. Goodyear's third quarter 2021 sales were \$4.9 billion, up 42% from a year ago, driven by a strong performance at Cooper Tire, which saw an 18% higher top line than in Q3 2020 and nearly 29% higher than the comparable 2019 quarter. In addition to goosing the top line, Cooper's replacement segment has proven valuable as volume grew in the high teens percentage across geographies while the OEM business has hit a rough patch in light of component and material shortages affecting the auto industry.

CEO Richard Kramer commented, “We continued to capitalize on favorable industry trends in our key replacement markets. Overall consumer replacement demand remains robust, and our

business continues to have momentum. We delivered our strongest price/mix in nearly a decade, more than offsetting inflationary pressures and driving strong earnings performance. With the transportation industry moving record freight volume, we also saw robust demand from our largest commercial customers. As a result, our commercial business delivered another strong quarter, with fleet tire volume well above pre-pandemic levels.”

THE PRUDENT SPECULATOR

GT – POSITIVES FAR OUTWEIGH THE NEGATIVES



REFLECTING ON THIRD QUARTER 2021

Positives

- Strongest price/mix performance in nearly a decade
- Favorable industry trends in key replacement markets
- Continued recovering consumer replacement share in Europe
- U.S. consumer replacement volume up 20%, well ahead of industry
- Commercial fleet business delivered strong results

Negatives

- Disruptions in OE production schedules continued
- Production and manufacturing costs impacted by staffing availability
- Strain on global supply chain resulting in cost pressures (e.g., higher transportation costs)
- Rising global energy costs

CONTINUED MOMENTUM DESPITE MACROECONOMIC CHALLENGES

Mr. Kramer also revisited the cost savings Goodyear expects to reach from the combination with Cooper. He explained, “We initially estimated that our synergies would reach \$165 million within 2 years of closing. We now expect the benefits, including the addition of international initiatives and some initial manufacturing and sales opportunities, to reach a run rate of \$250 million by mid-2023. This year’s results are expected to reflect about \$20 million of cost savings from the elimination of duplicative corporate costs, which is a good start. This, of course, excludes onetime transaction costs and accounting adjustments.”

Having taken our lumps holding GT over the past couple of years, we are delighted that performance for the tire business has seemingly started reached an inflection point. We continue to appreciate the benefits of merging with a distinguished operator in Cooper, and hope that Cooper’s fiscal conservatism and lean operating discipline make their way into its new parent instead of the other way around. We also note that Electric Vehicles offer a possible catalyst in

the coming years, as their density and torque demand superior technology. With the latest bounce, shares trade for more than twice the price at which they began the year. Even as earnings projections will take some time to settle to account for the Cooper union, our Target Price for GT has been boosted to \$28.

Shares of **Regency Centers** (REG – \$75.95) tacked on more than 2.5% on Friday to their triple-digit percentage gain over the last 12 months after Q3 financial results trounced analyst estimates. The retail-focused REIT produced \$1.12 (vs. \$0.97 est.) of per share funds from operations on revenue of \$307.4 million (vs. \$278.5 million est.). At the end of September, management said it believes “nearly all” of Regency’s tenants are “in a position to pay us full current rent.” Regency benefitted from strong demand for its open-air, grocery-anchored shopping centers, while the operating trends are broadly positive.

CEO Lisa Palmer said, “Steady retailer demand is driving strong leasing activity, which, combined with reduced tenant move-outs, has moved the needle on occupancy. We’ve also had success maintaining leverage in our lease negotiations, driving contractual rent growth and remaining prudent on CapEx while further improving our rent spreads. Our team has been working really hard to drive deals that will lead to long-term growth and the value of our assets. As a result of these positive trends and an increased pace of improvement, we’re again raising full year guidance for 2021. In recent quarters, we’ve discussed that we believe the recovery of NOI back to 2019 levels would likely occur in the second half of 2022 on an annualized basis. But given the rate of progress we’ve seen in recent months, we are now pulling that forward to the first half of 2022. We’ve also increased our dividend by 5%, a reflection of our confidence in a return to sustained growth over the long term. You’ll recall, and I know you’re probably sick of this, but I can’t possibly remind you enough that we never cut our dividend during the pandemic. We are committed to growing our dividend while also accretively investing our sector-leading free cash flow to drive solid total returns for our shareholders.”

COO James Thompson added, “Our tenants are generally fully open and operating in all markets with the lifting of restrictions translating into higher rent collections and continued strong leasing activity. Portfolio foot traffic rebounded back to 100% of 2019 foot traffic levels as of late October despite the slight dip in September related to the Delta variant. Many of our tenants are experiencing positive sales trends in 2021, with grocers holding their gains from 2020 and many restaurants reporting record high productivity. We continue to see further sequential improvement in rent collections, with Q3 collections at 98%. Notably, our collection rate for deferrals remains high at over 95% year-to-date. Translation, tenants are honoring their commitments... In summary, we are very pleased with the positive momentum that we continue to experience in our operating portfolio and in our value creation pipeline, driving us closer to full recovery and supporting our future growth.”

No doubt, the COVID-19 vaccines have provided a major boost to brick-and-mortar retailers and we continue to like that Regency’s national portfolio of shopping centers is primarily anchored by productive grocers located in affluent and attractive more-populated metro areas. Despite having grocery store tenants and other service tenants that drive foot traffic to its centers (fitness centers, restaurants, etc.), we respect that online shopping continues to be a threat to REG and its tenants, but with the pandemic starting to recede we think folks will have plenty of desire to get

out-and-about after quite some time of restricted movement. Of course, we also realize that the stock has seen substantial price appreciation to go along with the generous dividend, where the yield is still 3.3%, so we are keeping a watchful eye on the shares should other more undervalued names present themselves. Our Target Price for REG has been hiked to \$82.

Despite a bit of weakness on Friday following reports that Amazon might start selling prescription drugs in its cashier-less grocery stores, shares of **CVS Health** (CVS – \$93.78) enjoyed a strong week, gaining more than 5% on the heels of another very good quarterly report. The integrated pharmacy healthcare provider turned in adjusted EPS of \$1.97, versus a consensus projection of \$1.78. Revenue was \$73.8 billion compared to the consensus outlook of \$70.5 billion.

Retail and PBM both continued their segment momentum, and while some areas (notably COVID-19 vaccine/testing) within retail have received a temporary boost, the underlying trends around additional customer wins were still strong. This is highlighted by the TRICARE network agreement and the strong \$8.9 billion of net new PBM business so far in 2021. Management announced that it was raising full-year 2021 guidance for adjusted EPS from a range of \$7.70 to \$7.80 to a range of \$7.90 to \$8.00. Additionally, full-year cashflow projections were increased from a range of \$12.5 billion to \$13 billion to a range of \$13 billion to \$13.5 billion.

CEO Karen Lynch explained, “We outperformed expectations once again and continue to lead the way in changing how, when and where care is delivered for millions of Americans. Our services are responsive to evolving consumer needs, from administering millions of COVID-19 tests and vaccines to offering primary care accessible from virtually anywhere, and our touchpoints allow for unmatched impact...This double-digit growth was led by membership gains in both healthcare benefits and pharmacy services as well as higher volume in retail. We grew adjusted operating income by 12.5%. This higher guidance reflects the quarter’s outperformance and continued positive momentum. Third quarter results again demonstrate that our customers value, how we bring together our unique portfolio of assets, our deep healthcare expertise and vast consumer touchpoints to meet health needs. Their strong demand for our integrated solutions across the healthcare continuum, including health management programs for chronic conditions, mental health support, pharmacy services, and health and wellness products.”




Delivering an integrated health care experience

centered around the consumer

- Expanding our role in care delivery**
 - Creating community health destinations** that include primary care services, enhanced HealthHUBs, and traditional CVS Pharmacy locations with a greater focus on health and wellness
 - Expanding our virtual primary care program** with the first national Virtual Primary Care program; >750,000 eligible members as of January 1, 2022 including CVS Health colleagues
 - Entering individual exchange market in eight new states¹:** Arizona, Florida, Georgia, Missouri, Nevada, North Carolina, Texas and Virginia. Offering our first Aetna-CVS Health co-branded offerings in seven of these states.
- Enhancing the consumer experience through our digital capabilities**
 - >35M unique digital customers** served across our CVS Health assets
 - Reengineering our cost structure** – simplifying operations to benefit both customers and our colleagues

¹ AZ product offered as Banner | Aetna; No. Virginia product offered as Innovation Health in addition to an Aetna / CVS Health co-branded product in this state

4 ©2021 CVS Health and/or one of its affiliates. Confidential and proprietary.



Although the competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we continue to believe that CVS is a free-cash-flow-generating behemoth with strong potential to continue to evolve its business to a broader health care delivery model. We think CVS shares are underappreciated as they trade for less than 12 times NTM adjusted earnings estimates and yield 2.1%. Our Target Price for CVS has been boosted to \$127.

Industrial workhorse **Cummins Inc.** (CMI – \$237.07) earned \$3.69 per share in Q3, a 6% improvement year-over-year, but 5% lower than the consensus analyst estimate. Shares gained last Monday prior to the release but slid by 3% over the remaining four trading days. Global volume gains lifted revenue higher by 16.6% to almost \$6 billion although higher freight and logistics expenses, rising material costs and other manufacturing inefficiencies associated with supply chain challenges ate into margins.

CEO Tom Linebarger said, "Demand remained strong in the third quarter as the global economy continued to improve, driving strong sales growth across most businesses and regions outside of China, which is moderating in line with expectations. Economic trends such as order activity, freight rates, and used equipment prices remain robust across a number of our key end markets which points to strong demand extending into 2022 and beyond. Cummins is well positioned to

benefit as these markets gain momentum as we continue to see orders for our products outpace our competition. Despite this strong demand, supply chain constraints continue to impact our business as well as our customers', resulting in rising material costs, elevated logistics expenses, and other manufacturing inefficiencies and capping revenue below our expectations three months ago."

While demand isn't a problem, management adjusted its revenue and EBITDA guidance lower to account for supply chain constraints. The company had previously expected revenue growth this year between 20% and 24% but now expects the top-line to improve closer to the lower end of the range at 20%. The EBITDA margin is now projected to be 15% versus the 15.5% to 16.0% guidance given earlier this year. Finally, CMI anticipates returning over 75% of operating cash generated in 2021 to shareholders via dividends and share repurchases.

No doubt, material shortages and logistical constraints have affected nearly all manufacturing businesses. Nevertheless, we like Cummins' shareholder-friendly orientation and profitability while investing in technology advancement in natural gas and automated engine systems. A solid performer over the last couple of years, shares are nearly 15% off the high set in March. CMI now trades for 14 times the NTM EPS estimate with earnings expected to breach \$20 per share by 2023. The dividend yield is a respectable 2.4% and our Target Price stands at \$324.

Shares of engineered product manufacturer **Eaton Corp PLC** (ETN – \$171.30) have regained investor favor, climbing almost 4% last week and nearly 15% so far in Q4. On Tuesday, ETN reported Q3 results, which included an adjusted EPS print of \$1.75 that edged the consensus analyst estimate of \$1.72. While revenue of \$4.92 billion missed the average forecast by 1.4%, the market was invigorated by management's Q4 guidance, which highlighted sequential improvement in supply chain constraints and positive price/cost despite higher inflation.

CEO Craig Arnold highlighted record performance and 46% incremental margins despite lower-than-expected sales because of a "few unique suppliers." He explained, "We had a record third quarter, driven by strong operational performance despite supply constraints that impacted our organic sales growth. Still, we saw encouraging signs, including robust order growth of 17% on a rolling 12-month basis and record backlogs up more than 50% in our combined Electrical Americas and Electrical Global segments. Our segment margins in the third quarter were 19.9%, an all-time record and above the high end of our guidance. This represents a 230-basis point improvement over the third quarter of 2020."

Eaton's backlog at the end of the quarter (\$8.7 billion) was up 61% year-over-year. For some perspective, this amount would suggest more than five months of backlog versus 3.5 months at this time last year. Roughly half of ETN's revenue is generated from end markets with solid or strong expected growth (commercial aerospace, vehicles, data centers and industrial facilities).



2022 Eaton End Market Initial Assumptions

Electrical Sector

	Commercial & Institutional Most commercial segments will see a rebound from depressed activity in 2020/2021, while institutional is still mixed (strong healthcare, weak education)
	Data Centers & Distributed IT Hyperscale growth likely to slow from 20%+ growth in 2021 to low double-digit growth, while distributed IT growth will slow but remain solid
	Industrial Facilities Capacity concerns and reshoring in some sectors will continue to drive new manufacturing projects, while oil and gas is accelerating
	Machinery/ MOEM Early cycle growth has been exceptionally strong and though growth will slow to a more modest mid-cycle rate, underlying demand for factory MRO, automation, and capital investment remains robust given supply chain and labor shortages
	Utility Moderate growth in utility T&D expected to continue as grid hardening remains a priority, global renewables growth to pick back up after 2021 pullback
	Residential Growth will continue to cool off as affordability and long build times are weighing, though trend of increasing electrical content per home is continuing



Powering Business Worldwide

Industrial Sector

	Commercial Aerospace Large commercial transport market growth to be very strong, driven by single-aisle production rate ramp-ups, while aftermarket is expected to experience strong positive growth as policy barriers to air travel diminish, airline capacity increases, and passenger traffic picks-up
	Military Aerospace Underlying OEM demand and backlog remain solid, though increased old aircraft retirements in favor of new aircraft procurement to weigh on aftermarket
	Commercial Vehicles Industry demand is strong globally, though supply chain issues will likely continue to hold growth back, especially in H1
	ICE Light Vehicles Growth will be strong as global demand is solid and inventory is unsustainably low, though component shortages are likely to continue to weigh on production in the short-term
	Electric Vehicles Government regulations and incentives, combined with the increase in new EV models will continue to drive EV demand, production, and share gain

Down Significantly Flat Growth Modest Growth Solid Growth Strong/Double Digit Growth

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Shares certainly aren't as cheap as we might like, but we continue to ride the momentum wave and don't think the valuation is overly excessive, especially as we have captured some of our profits earlier this year. We think if supply chain constraints begin to abate, ETN has some strong quarters ahead. We continue to appreciate the company's shift in recent years away from legacy segments and toward highly differentiated end markets exposed to tailwinds like the acceleration in data consumption and the production of electric vehicles. Additionally, we note that potential benefits from a U.S. infrastructure bill could further boost orders. We also see Eaton as a beneficiary of re-shoring, higher manufacturing CapEx and a multi-year commercial aviation recovery. Given this new info, and the potential tailwinds, we have moved the Target Price for our remaining ETN shares up to \$186.

Shares of **Allstate** (ALL – \$117.16) sank over 6% on Thursday after the company posted Q3 EPS of \$0.73, less than half the figure analysts expected. Premiums written in the quarter were 16.7% higher than the comparable quarter in 2020 (driven by the addition of National General and Allstate brand homeowners growth). However, the \$534 million underwriting loss booked by the property and casualty insurer drove the combined ratio to 105.3, versus a solid 91.6 a year ago. Despite the difficult third quarter, ALL's combined ratio is still a profitable 94.8 through the first nine months of 2021.

CEO Tom Wilson elaborated on the latest underwriting dynamics, “Allstate’s operational expertise enables us to address inflation in auto repair costs while executing our Transformative Growth strategy. Auto insurance had an underwriting loss in the quarter as supply chain disruptions drove rapid price increases for used cars and original equipment parts. Auto insurance did generate attractive margins for the first nine months of the year, and we are filing for rate increases to maintain historical profitability levels. Performance-based investment income increased by \$308 million reflecting the strategic decision to increase these investments, which offsets some of the decline in quarterly underwriting income. Transformative Growth is lowering expenses, providing further protection from increased loss costs. The catastrophe risk and return strategy also benefited results as nearly \$1 billion of net reinsurance recoveries offset the impact of increased severe weather, including Hurricane Ida.”

We continue think Allstate is well-positioned with the potential to deliver attractive long-term gains due to its vast and increasing distribution network, scale and resulting cost advantages, pricing sophistication and product design. Off significantly from the recent \$140 high set back in May, shares change hands at less than 11 times the consensus NTM EPS forecast, with the bottom-line likely to show solid growth over the next several years from its current level. Organic growth has been difficult to come by in recent years but we think the hardening property and casualty market ought to be a net positive for the fourth largest P&C insurer in the U.S. The dividend yield is 2.8% and our Target Price for ALL is presently \$156.

Shares of **EOG Resources** (EOG – \$95.12) touched a 52-week high on Friday, ending the week up almost 3%. After weakness in the stock for much of the week, the oil and gas producer bounced back strong following the release of Q3 financial results, which included solid results as well as an announcement that the dividend would be increased by 82%, a \$2.00 per share special dividend will be paid and the share repurchase authorization would be updated to \$5 billion (which represents about 9% of the current market cap).

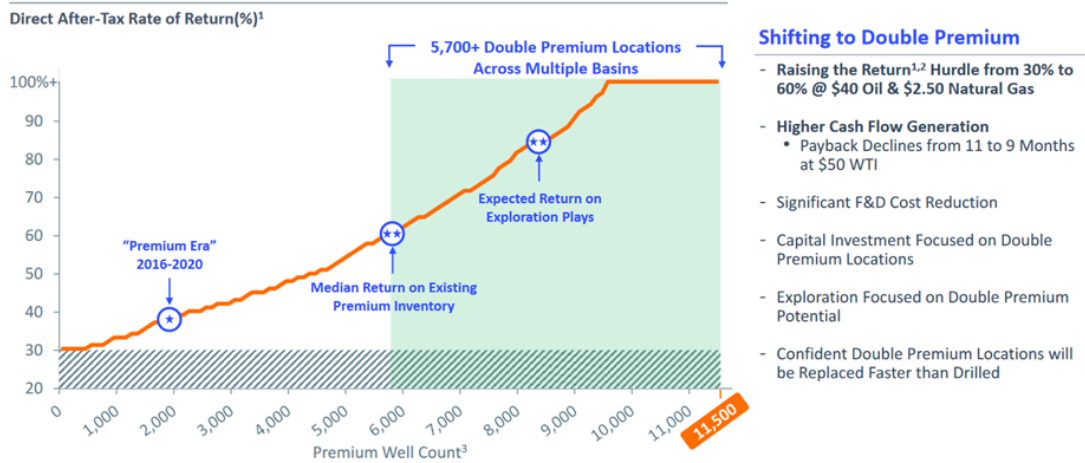
EOG reported adjusted earnings of \$2.16 per share in the quarter, better than the \$2.05 analysts expected. Revenue for the quarter came in at \$4.77 billion, versus the \$4.45 billion consensus analyst estimate. Q3 production averaged 844,400 boe/d, approximately 3% above the midpoint of the company’s prior guidance. EOG has also seemingly taken the necessary steps to insulate itself from some near-term rising costs as it has 90% of its drilling rig needs for 2022 locked in at very favorable prices.

CEO Ezra Yacob commented, “EOG delivered exceptionally strong earnings and free cash flow in the third quarter driven by our double premium investment program. We extended our track record of reliable execution with better than expected production, capital expenditures, operating costs and product prices. For the second time this year, we’ve increased our dividend rate. This quarter’s 82% raise brings our indicated annual rate to \$3.00 per share, doubling the dividend compared to last year. Our high-return investment program, first spurred by our shift to a premium investment standard in 2016 and followed by the double premium standard instituted last year, has positioned the company to step up our cash return to shareholders. The sizable increase in the regular dividend closes the gap between the prior dividend level and the significant improvement in EOG’s profitability since 2016. It should also be taken as a signal of our confidence that we can continue improving in the future.”



Double Premium: Higher Returns + Higher Cash Flow

60% Direct ATROR^{1,2} at \$40 Oil & \$2.50 Natural Gas



(1) Direct ATROR calculated using flat commodity prices of \$40 WTI oil, \$2.50 Henry Hub natural gas and \$16 NGLs.

(2) See accompanying schedules for reconciliations and definitions of non-GAAP measures and other measures.

(3) Premium locations are shown as a net basis and are all undrilled. Premium return hurdle is a direct ATROR calculated using flat commodity prices of \$40 WTI oil, \$2.50 Henry Hub natural gas and \$16 NGLs. See accompanying schedules for reconciliations and definitions of non-GAAP measures and other measures.

3Q 2021

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Mr. Jacob added, “EOG has never been in better shape. Our high-return business model is sustainable for the long term, underpinned by a deep inventory of double premium drilling locations. We also remain optimistic about the potential of new exploration plays to improve the overall quality of our inventory. Our financial and operational results, our world-class assets as well as our continued progress on exploration are a testament to the strength of EOG’s underlying business, all driven by our talented employees and unique culture. We are well positioned to be one of the lowest cost and lowest emissions producers and generate superior cash returns, free cash flow growth and long-term shareholder value.”

Despite being up more than 90% in 2021, we still think EOG offers attractive upside. We continue to like that EOG has historically been one of a handful of shareholder-friendly oil and gas producers and think management’s focus on capital returns is to be commended. We also like that EOG has one of the highest quality portfolios of the U.S. oil firms and has a proven history of being a premier operator. Even after the amazing run up, shares currently trade for less than 10 times the consensus NTM adjusted EPS estimate, while the increased regular quarterly dividend provides a 3.2% yield. We have hiked our Target Price to \$119.

The party continues for our crop nutrient holdings **Mosaic** (MOS – \$37.35) and **Nutrien** (NTR – \$66.96), with both companies generating profits in the latest quarter nearly five times the

comparable quarter a year ago. Florida-based Mosaic earned \$1.35 per share on \$3.4 billion of revenue in the quarter, while Canada-based Nutrien earned \$1.38 per share on \$5.8 billion of revenue. A confluence of factors including higher natural gas prices, a ban on phosphate exports in China until next June, and natural disasters impacting production at home (e.g. Hurricane Ida) continue to support higher fertilizer prices, which are expected by industry experts to stay elevated at least until next spring. For context, Urea Gulf (nitrogen fertilizer) and DAP Nola (phosphate fertilizer) futures for delivery next March are quoted by the CME at the highest prices either contract has seen since around 2008.

In an interview with *Bloomberg* last week, Nutrien CEO Mayo Schmidt commented on the industry backdrop, “We’ve had very good pricing and we’re continuing to see very good strength. Our greatest challenge is getting the tanks filled because the lineups are significant. Crop prices are strong and high corn prices will support maximizing U.S. plantings next year, so farmers won’t be crimped by the higher fertilizer prices.”

Nutrien repurchased 2.4 million shares in the third quarter and expects to reduce long-term debt by approximately \$2 billion over the next six months. Management raised full-year 2021 adjusted EBITDA and adjusted net earnings per share guidance to \$6.9 to \$7.1 billion and \$5.85 to \$6.10 per share, respectively, as strong demand for crop inputs in the fourth quarter and tight global fertilizer supply and demand fundamentals are expected to carry into 2022.

Rallying into late-October, Mosaic shares took a breather as earnings came in 12.6% below the consensus analyst estimate, which had been boosted since management said in August, “The second half of 2021 is expected to be one of our strongest periods in more than a decade.” Shares slid another 3.7% on Friday after Vale announced that it would sell its 34-million-share stake in MOS, which it received in 2016 when Mosaic acquired its fertilizer unit. The sale price Vale will receive equates to roughly \$37 per share, while MOS has stated that it will purchase 25% of these shares. Mosaic has bought back 956,404 shares and retired \$450 million of long-term debt in 2021, while increasing the 2022 annual dividend target by 50%. Management expects Q4 phosphate and potash realized prices to reflect material increases over the third quarter.

MOS CEO Joc O’Rourke commented, “Mosaic’s third quarter results were the strongest in more than a decade, as our business continues to realize the benefits of a favorable market amplified by our transformation efforts. From the acquisition and optimization of Mosaic Fertilizantes to the acceleration of our Esterhazy K3 potash mine and the recent restart of the Colonsay potash mine, Mosaic has evolved into a business that we believe can deliver results throughout the cycle. These efforts are generating significant free cash flow, which we are using to strengthen the balance sheet and invest in the business, while returning capital to investors.”

Political turmoil and difficult weather had dealt these fertilizer businesses a tough hand early on in our holding period, but we are delighted to see our two holdings in the space making hay while the sun is shining. We continue to like the tremendous operating leverage for Mosaic, especially given current trends, while the retail network at Nutrien offers scale through repeat business. We acknowledge the cyclicity of the fertilizer business and are cautious not to overstay our welcome, but we continue to like that both stocks trade for near 7 times forward

earnings, while we note that income-oriented investors might be attracted to the NTR dividend yield of 2.7%. Our respective Target Prices for MOS and NTR are currently \$48 and \$89.

Pharmaceutical giant **Pfizer** (PFE – \$48.61) posted EPS of \$1.34 in Q3, a significant bump over the \$0.72 earned a year ago, and better than the \$1.08 consensus analyst estimate. Comirnaty, Pfizer's COVID-19 vaccine, contributed \$13 billion to revenue during Q3, and PFE has shipped 2 billion doses (and produced 2.6 billion) to 152 countries so far.

On the COVID-19 front, CEO Albert Bourla said, “We also continue to follow the science to help ensure we stay ahead of the virus. Let me speak to 2 examples. First, top line results from our Phase III randomized control trial demonstrated that a booster dose administered to individuals 16 years of age and older who previously received the Pfizer-BioNTech primary 2-dose series restored vaccine protection against COVID-19 to the high levels achieved after the second dose. Second, the U.S. Food and Drug Administration has authorized our COVID-19 vaccine for emergency use for children 5 through 11 years of age, the first and only vaccine to receive such authorization. For this age group, the vaccine is to be administered in a 2-dose regimen of 10-microgram doses given 21 days apart. The 10-microgram dose level was carefully selected based on safety, tolerability and immunogenicity data. Last week, we announced that the U.S. government exercised its final purchase option under the existing U.S. supply agreement to purchase 50 million additional doses of COMIRNATY. This brings the total number of pediatric doses purchased by the U.S. government to 115 million, which is enough to vaccinate every U.S. child. Overall, the U.S. has now purchased a total of 600 million doses across all age ranges under this supply agreement.”



2022 Outlook for Potential Comirnaty⁽¹⁾ Sales

4B

Expected doses to be produced in 2022

1.7B

Expected doses to be delivered in 2022 based on contracts signed as of mid-October 2021

~\$29B

Direct sales and alliance revenues anticipated in 2022 based on contracts signed as of mid-October 2021

We Continue to Engage with Governments Regarding Potential Additional Orders for 2022

⁽¹⁾ See Slides 38 and 39 for definition of Comirnaty, which is the name for the Pfizer-BioNTech COVID-19 Vaccine



Third Quarter 2021 Earnings



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CFO Frank D’Amelio added, “We’ve again provided total company guidance, which includes the business with the COVID-19 vaccine, and then we provided some additional sub-ledger detail on our assumptions on the projected COVID-19 vaccine contribution and the business without the COVID-19 vaccine. Our revenue guidance has increased, and we now expect total company revenue to be in a range of \$81 billion to \$82 billion, increasing by \$2.5 billion at the midpoint, with the COVID-19 vaccine revenue for the year now expected to be approximately \$36 billion, an increase of approximately \$2.5 billion compared to our prior guidance. The projected COVID-19 vaccine revenue as a percentage of total company revenue at the midpoint has increased to 44% as compared to 42% in our previous ’21 guidance... In terms of adjusted diluted EPS without the contribution from the COVID-19 vaccine, we have increased the range to be between \$2.60 to \$2.65 for the year, which represents approximately 12% operational growth at the midpoint. These growth rates are all consistent in how we’ve been publicly positioning the business post the Upjohn separation. You may notice that the implied Q4 guidance suggests non-COVID-19 operational revenue to decline by 1%, especially as compared to the revenue growth that we’ve seen year-to-date of 8%.”

While the earnings pushed shares up 4%, the real shot in the arm came on Friday when Pfizer reported that a Phase 2/3 study for an oral COVID-19 antiviral saw high efficacy in trials. According to the press release (available here: <https://www.pfizer.com/news/press-release/press->

[release-detail/pfizers-novel-covid-19-oral-antiviral-treatment-candidate](#)), Pfizer reported, “Investigational novel COVID-19 oral antiviral candidate, PAXLOVID™, significantly reduced hospitalization and death, based on an interim analysis of the Phase 2/3 EPIC-HR (Evaluation of Protease Inhibition for COVID-19 in High-Risk Patients) randomized, double-blind study of non-hospitalized adult patients with COVID-19, who are at high risk of progressing to severe illness. The scheduled interim analysis showed an 89% reduction in risk of COVID-19-related hospitalization or death from any cause compared to placebo in patients treated within three days of symptom onset (primary endpoint); 0.8% of patients who received PAXLOVID™ were hospitalized through Day 28 following randomization (3/389 hospitalized with no deaths), compared to 7.0% of patients who received placebo and were hospitalized or died (27/385 hospitalized with 7 subsequent deaths).” The results were statistically significant.

With Paxlovid supposedly having an 89% efficacy rate, there is plenty of excitement about this new drug and we can’t help but be impressed with how well Pfizer has met the COVID-19 challenge. We think there is still plenty of revenue opportunity related to the virus, both from boosters (and the possibility that the boosters are needed annually like a flu shot) and from the antiviral pill. We also believe that the market underappreciates Pfizer’s emerging pipeline of products and management’s increasing confidence in its organic growth potential. Shares trade for just 12 times forward earnings expectations and boast a robust dividend yield of 3.2%. Our Target Price for PFE has shot up to \$63.

Zimmer Biomet (ZBH – \$141.66) reported that it earned \$1.81 per share in Q3, in line with the figure in Q3 last year. Sales in the global knee business declined 0.7%, while the global hip business dropped 6.6%, with both offset by outperformance in sports medicine, extremities, and trauma. Management reduced its previous revenue and earnings guidance for 2021. It now expects 11.3% to 12.5% revenue growth year-over-year (versus 14.5% to 16.5%), and between \$7.32 and \$7.47 of EPS (versus the \$7.65 to \$7.95 range). Shares dipped on the release, but reversed course on Friday upon encouraging news of Pfizer’s new oral COVID treatment.

CFO Suketu Upadhyay described the effect of the COVID Delta variant on the quarter, “When compared to 2019, net sales increased 0.4%. On a consolidated basis, as Bryan mentioned, we were growing through August, but then declined in September as we saw delta variant cases and staffing shortage increases. In short, there was a seasonal step-up in procedure volumes for the quarter, but the recovery has not taken hold as fast as we thought it would, especially in our hip and knee businesses.”

“Despite the continued challenges and market pressures in the third quarter, we drove significant progress in the advancement of our business priorities and continued focus on execution to create value and deliver on our mission,” said CEO Bryan Hanson. “Our underlying business remains strong, fueled by our transformation and the launch of new innovative products that can make a difference for our customers and for patients. I continue to be incredibly proud of our team for their dedication, resilience and performance during this challenging time.”

Like the other handful of major implant providers, the last year has been undeniably tough for Zimmer. But expenses have remained under control, even while the company has continued to invest around 5% of its revenue on research and development. We expect the momentum going

into 2021 for surgical robotics will eventually return to benefit the firm's Rosa platform and that implant sales will rebound as the pandemic recedes. The pending spinoff of dental and spinal businesses will allow ZBH to elevate its focus to that needed for the continued development of some its new tech-forward products like ZBEdge, a suite of integrated digital and robotic technologies. Consolidating in price over the past two years, we find shares attractive as they trade at a discount of nearly 50% to peers on a P/E basis, with analysts estimating \$9.02 of EPS in 2023. Our Target Price for ZBH now resides at \$189.

Shares of **Leggett & Platt** (LEG – \$44.15) dropped nearly 10% after the company reported Q3 financial results that came up short against analyst expectations. The bedding and furniture component maker earned \$0.71 per share (vs. \$0.77 est.) on revenue of \$1.32 billion (vs. \$1.32 billion est.). Sales in the Bedding segment were up 13% year-over-year from sales price hikes, although chemical shortage, material delays and labor/transportation issues resulted in lower volume. Poor chemical availability caused a drop in production for the Specialty Foam unit, but management expects manufacturing to pick up as the shortages are resolved. The company's Q4 and full-year 2021 guidance also trailed estimates. In Q4, LEG expects EPS between \$0.69 and \$0.79 (vs. \$0.77 est.). In 2021, the company expects EPS between \$2.70 and \$2.80 (vs. \$2.88 est.) and sales between \$5.0 billion and \$5.1 billion (vs. \$5.02 billion est.).

CEO Karl Glassman said, "When comparing to the pre-pandemic results of the third quarter 2019, trade sales grew 6%, adjusted EBITDA increased 1% and adjusted EPS was flat. Like many other companies, we continue to navigate a myriad of macro market challenges, including supply chain issues related to semiconductor shortages, foam chemical shortages, labor availability and freight challenges as well as higher costs associated with each of these issues. Given this very challenging operating environment, we are extremely pleased that our teams were able to deliver third quarter earnings in line with a pre-pandemic and relatively strong third quarter of 2019. We narrowed our full year guidance range for both sales and EPS, primarily reflecting lower expected volume in our Automotive business due to declines in global production forecast."

COO Mitch Dollof offered additional color, "Overall, the fixed cost actions we took last year reduced our third quarter cost by approximately \$20 million versus the third quarter of 2019. Across all of our businesses, we remain focused on controlling our costs by only adding fixed costs as necessary to support higher volumes and future growth opportunities. With fluctuating demand and limited labor availability, we are making short-term investments to attract and retain our labor force. We have rebuilt inventory in our Steel Rod, Drawn Wire and U.S. Spring businesses following severe depletion in 2020, and are holding slightly higher levels of inventory in order to meet anticipated customer demand as foam and labor availability improves across the industry. We will take our rod mill out of operation for approximately 3 weeks near the end of this year to replace the reheat furnace, and are holding additional safety stock as a precautionary measure. As a result, higher levels of inventory in these businesses are expected through the remainder of the year and will likely alter our normal seasonal cash flow cycle to some degree."

While inflation and supply chain headwinds are likely to impact LEG for a while, we like that management is deploying capital in a way that balances the near-term challenges with long-term opportunity. On the capital allocation front, CFO Jeff Tate said, "Our long-term priorities for use

of cash are unchanged. They include, in order of priority: funding organic growth, paying dividends, funding strategic acquisitions and share repurchases with available cash. For the full year 2021, we expect capital expenditures of approximately \$120 million, dividends should approximate \$220 million and acquisition spending of approximately \$150 million. We do not expect any significant share repurchases as we continue to focus on deleveraging.” LEG’s yield is 3.8% and we like the effort to improve the balance sheet. Our Target Price is now \$62.

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