Market Commentary Monday, November 22, 2021

November 21, 2021

EXECUTIVE SUMMARY

Market of Stocks – S&P 500 Index Up; Equal-Weight Down
Walmart vs. Peloton – Markets Not Always Rational
COVID-19 – Virus News Worsens
Econ Data – Strong Q4 Growth Continues to be Expected
Earnings & Dividends – Trending Nicely Higher
Valuations – Very Reasonable Metrics for our Portfolios
Sentiment – Big Pullback in Bullishness
Stock News – Updates on CSCO, KLIC, QCOM, TSN, WMT, TSN, LOW, FL & KSS

Market Review

Reversing what was seen the week prior when the average constituent outperformed the capitalization-weighted indexes, the latest five days of trading offered the same reminder that it is a market of stocks and not a stock market. Indeed, while the S&P 500 managed a modestly positive return last week, the S&P 500 Equal Weighted index skidded 1.22% and Value trailed Growth by a wide margin, with the Russell 3000 Value index dropping 1.89% and the S&P 500 Pure Value index tumbling 3.16%.

Certainly, anything can happen in the equity markets, and your Editor has seen plenty of strange goings-on in his 34 years with *The Prudent Speculator*, but there was some head-scratching stock-price action last week,…

SHORT-TERM MARKET MOVEMENTS ARE SOMETIMES PUZZLING

Bullish Walmart Raises Forecast

Sales and traffic climb; retailer navigates supply issues, stocks stores for the holidays

By Sarah Nassauer

Walmart Inc. reported another quarter of higher sales, as it raised prices for some products and consumers shopped early for the winter holidays.

Comparable sales, those from U.S. stores and digital channels operating for at least 12 months, increased 9.2% in the quarter ended Oct. 29 compared with the same period last year. U.S. e-commerce sales rose 8% from a year ago, when shoppers flooded online because of the pandemic.

More shoppers visited stores than they did in the same period last year, with traffic up 5.7% and spending per trip up 3.3%, a sign that shopping habits may be normalizing after last year's extreme shifts in buying behavior.

Growth rose from earlier in the year as holiday shopping kicked off in October and strong grocery sales helped lift numbers after Walmart's grocery sales lagged behind some competitors earlier in the pandemic.

Sales got a boost from inflation and spending related to government stimulus, the big-box retailer said.

"We gained market share in grocery in the U.S., and more customers and members are returning to our stores and clubs," said Walmart Chief Executive Doug McMillon in a news release Tuesday. He said that Walmart has enough products to serve customers over the holiday season. "Customers continue to move away from early pandemic behaviors," Mr. McMillon said on a call with analysts Tuesday.

Walmart's sales beat analysts expectations of around a 6.7% increase, according to FactSet.

The retailer's shares, after initially rising when the company reported results, finished Tuesday down 2.5%.

Walmart's results highlighted the uneven impact of supply-chain snarls, as large companies with deep pockets continue to show they can work around disruptions that are hobbling their smaller competitors. Some of the biggest U.S. retailers, including Walmart, Home Depot Inc. and Target Corp., have chartered their own cargo ships to sidestep congestion at U.S. ports.

"Our scale has benefited us," Home Depot Chief Financial Officer Richard McPhail told The Wall Street Journal. Besides chartering ships, Mr. McPhail cited the ability to use Home Depot's cavernous stores to facilitate deliveries, and to negotiate with shipping carriers and trucking companies for lower rates. "Scale matters; they can count on our volume so it's an advantage."

Sales are rising, but retailers confront higher costs due to supply-chain snafus, inflation, a tight labor market and shifting buying trends as the pandemic becomes part of everyday life.

U.S. retail sales rose 1.7% in October, a sign that consumers continue to spend despite rising inflation. Home-improvement retailer Home Depot on Tuesday said U.S. com-

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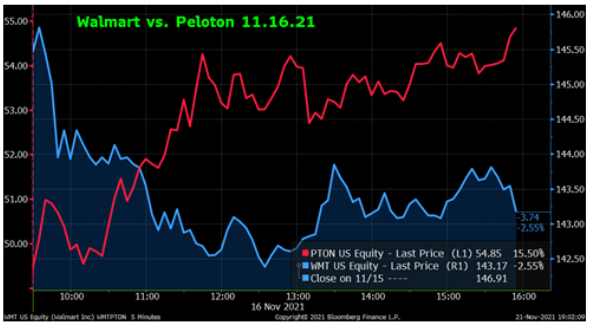
◆ Home Depot shakes off challenges B2



Peloton Plans to Raise $1 Billion After Saying It Didn't Need Capital

By Sharon Terlep

Peloton Interactive Inc. announced a $1 billion stock offering, just weeks after the maker of connected fitness equipment said it didn't need additional capital to weather wider-than-expected losses and slowing growth.

Peloton poured hundreds of millions of dollars into ramping up manufacturing to meet soaring demand during the pandemic as more people worked out at home. Revenue more than doubled last year from 2019 despite product shortages and delays.

Then Peloton's fortunes changed. Earlier this month, the company said fewer people were joining its online workouts and warned that its annual revenue could be nearly 20% lower than it initially predicted.

Asked on Nov. 4 by analysts whether Peloton needed additional cash to deal with the shift, finance chief Jill Woodworth said, "Cutting to the chase, we don't see the need for any additional capital raise based on our current outlook." Ms. Woodworth said Peloton instead would consider putting off capital investments

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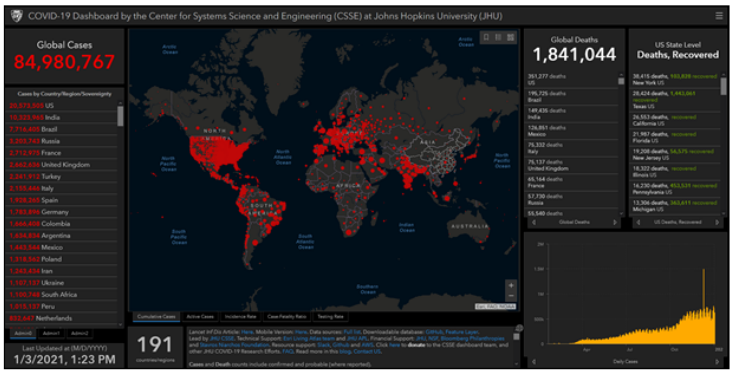
Puzzling is about the only word to describe Tuesday's 2.5% drop in shares of Walmart after the discount retailer posted much-better-than-expected quarterly sales and profits AND raised its full-year EPS guidance. On the other hand, shocking was about the only word to use to explain the 15.5% price spike the same day for shares of Peloton, given that the fitness equipment maker announced a surprise $1 billion dilutive stock offering, less than two weeks after proclaiming that it didn't need additional capital to weather wider-than-expected losses and slowing growth.

…even as we respect that news on the coronavirus front took a turn for the worse, with *The Wall Street Journal* running headlines like: *Austria Becomes First in Europe to Impose Vaccine Mandate, Return to Lockdown; New COVID-19 Restrictions Spark Protests Across Europe;* and *U.S. COVID-19 Deaths This Year Surpass 2020's.*

COVID-19 GLOBAL DEATH COUNT OVER 5 MILLION



https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

Certainly, we do not mean to downplay the suffering many have endured at the hands of the coronavirus, especially as the global death count has soared from 1.8 million at the start of 2021 to 5.15 million today and the globe is enduring another COVID-19 surge. However, the discovery of effective vaccines, innovative treatments and, more recently, oral antiviral medications, has allowed life to return to some semblance of normality.

To be sure, COVID-19 cases are on the rise as the weather has turned colder, but most experts think this wave will peak at lower levels than prior waves, thanks to more folks being vaccinated,…

HEALTH

Moderna's Covid-19 vaccine is strongly effective, early look at data show

By MATTHEW HERPER @matthewherper and HELEN BRANSWELL @HelenBranswell / NOVEMBER 16, 2020 Reprints

RUBY WALLAU FOR STAT

Moderna's vaccine against Covid-19 is strongly effective, the company said Monday, building excitement about the potential of controlling the global pandemic.

The news comes exactly a week after results from Pfizer and BioNTech, which announced broadly similar results.

The Moderna vaccine reduced the risk of Covid-19 infection by 94.5%. There were 95 cases of infection among patients in the company's 30,000-patient study. Only five of them occurred in patients who developed Covid-19 after receiving Moderna's vaccine, mRNA-1273.

Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, admitted the preliminary data for the Moderna and the Pfizer vaccines — the only two so far to have early estimates of vaccine efficacy — are better than he had anticipated.

HEALTH

Pfizer, BioNTech submit formal application to FDA to authorize Covid-19 vaccine

By HELEN BRANSWELL @HelenBranswell / NOVEMBER 20, 2020 Reprints

SPENCER PLATT/GETTY IMAGES

The drug maker Pfizer and its German partner BioNTech applied on Friday to the Food and Drug Administration for an emergency use authorization for their Covid-19 vaccine, a watershed moment in the effort to curb the global pandemic.

Hours later, the FDA announced that a panel of outside experts, the Vaccines and Related Biological Products Advisory Committee or VRBPAC, will meet Dec. 10 to review the data and advise the agency on whether to approve the emergency use request and what conditions, if any, to put on the vaccine's use. It it unlikely to be authorized for use in children under the age of 12, for instance, because it hasn't yet been tested in pre-teens.

It is widely expected that the FDA will then issue an emergency use authorization for the two-dose vaccine, which has been shown to be highly effective in preventing Covid infections. Officials have said they hope to begin vaccination of health workers — who will be at the front of the line for the limited first doses — in some locations within days of the authorization.

…while new antivirals bring the promise of far better outcomes for those who do contract the virus.

HEALTH

Experimental Pfizer pill prevents Covid hospitalizations and deaths

By Matthew Herper Nov. 5, 2021 Reprints

An experimental antiviral pill from Pfizer reduced Covid patienrs' risk of death and hospitalization by 89% in a large study.
JEFF KOWALSKY/AFP 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 Herper Oct. 1, 2021 Reprints

KENA BETANCUR/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."

Of course, the Coronavirus Pandemic is still a ways away from becoming endemic, but market history shows that stocks have long enjoyed healthy long-term viral immunity,…

THE PRUDENT SPECULATOR

VIRUSUS HAVE YET TO KILL THE STOCK MARKET

September 29, 2014

March 30, 2020

Magazine Cover	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Time Magazine: The Aids Hysteria	7/4/1983	168.91	-2%	-1%	-9%	49%	61%	2681%
Time Magazine: The Truth About SARS	5/5/2003	926.55	4%	14%	21%	43%	52%	407%
Time Magazine: Avian Flu Death Threat	9/26/2005	1,215.63	4%	7%	10%	0%	-6%	286%
Time Magazine: H1N1 How Bad Will It Get?	8/24/2009	1,025.57	8%	8%	3%	38%	94%	358%
Bloomberg BusinessWeek: Ebola Is Coming	9/29/2014	1,977.80	6%	4%	-5%	27%	50%	138%
Time Magazine: Coronavirus	3/30/2020	2,626.65	18%	28%	51%			79%
Price Changes Only. Does not Include Dividends								
		Averages:	**6%**	**10%**	**12%**	**31%**	**50%**	**658%**

Source: Kovitz using data from Bloomberg. As of 11.19.21

August 24, 2009

September 26, 2005

May 5, 2003

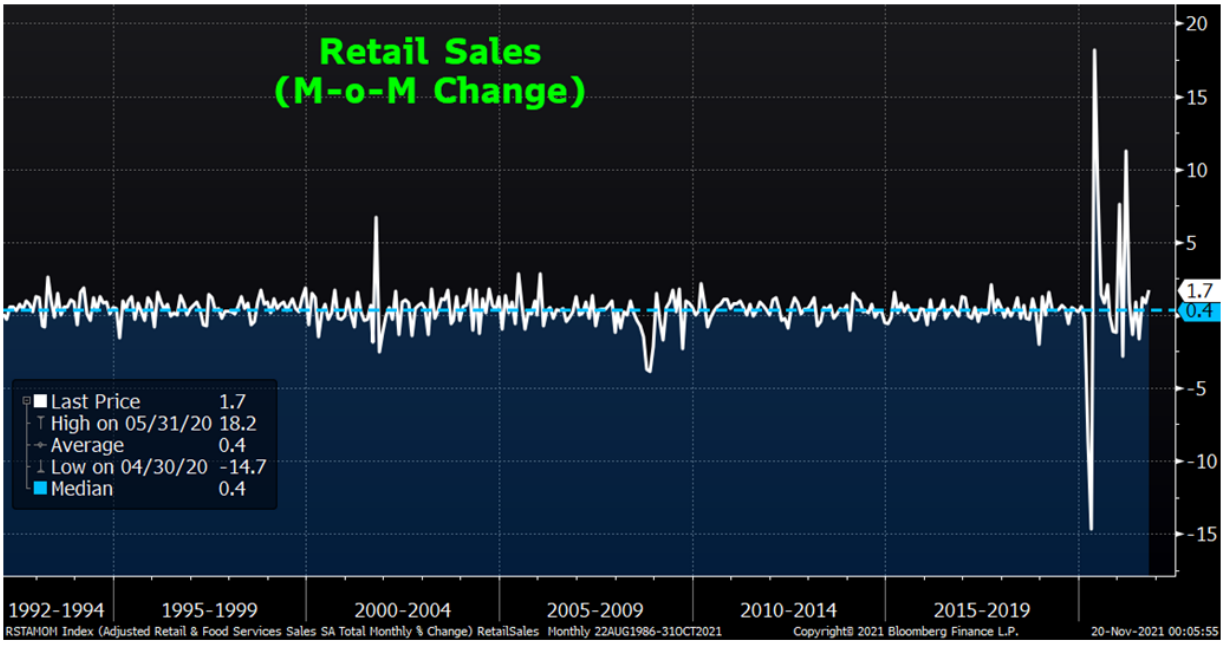
July 4, 1983

…while the latest economic numbers generally were robust, be they statistics on retail sales,…

THE PRUDENT SPECULATOR

RETAIL SALES TOP EXPECTATIONS IN OCTOBER

While price inflation deserved some of the credit, retail sales jumped 1.7% in October, the biggest gain since March, with that prior high goosed by plenty of sugar from Uncle Sam. And, excluding autos, which had some noise in the numbers, sales also rose 1.7%.



…manufacturing,…

THE PRUDENT SPECULATOR

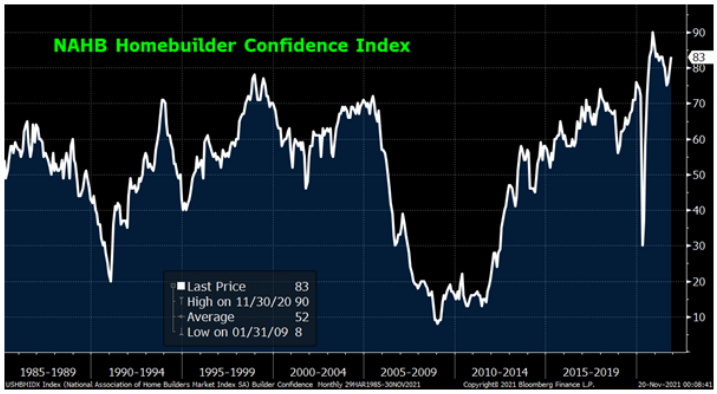
EAST COAST FACTORY ACTIVITY SPIKES IN NOVEMBER

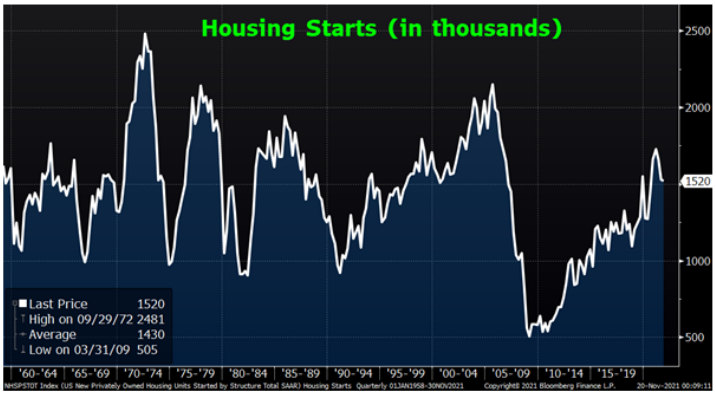
The Empire State gauge of manufacturing activity in the New York area jumped in November to a much-better-than-expected 30.9, nearly 9 points above forecasts. The Philadelphia Fed's November measure of manufacturing activity in the mid-Atlantic region crushed forecasts, soaring to 39.0, 16 points better than estimates. Both indexes are way above average for this business conditions measure, despite supply-chain bottlenecks.

…or housing.

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS STRONG





The National Association of Home Builders' monthly confidence index for November beat expectations, climbing to 83, its highest reading since May and well above the long-term average on the 35-year-old gauge. No doubt, home prices and rents rising at their fastest pace in years are boosting builder optimism, but higher materials and labor costs are keeping a lid on housing, and housing starts pulled back in October to a weaker-than-expected level.

True, there are still supply chain issues and plenty of folks out of work,…

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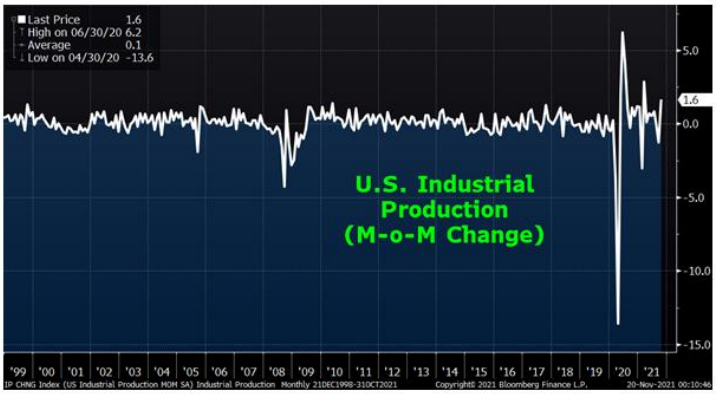
IMPROVING ECON STATS



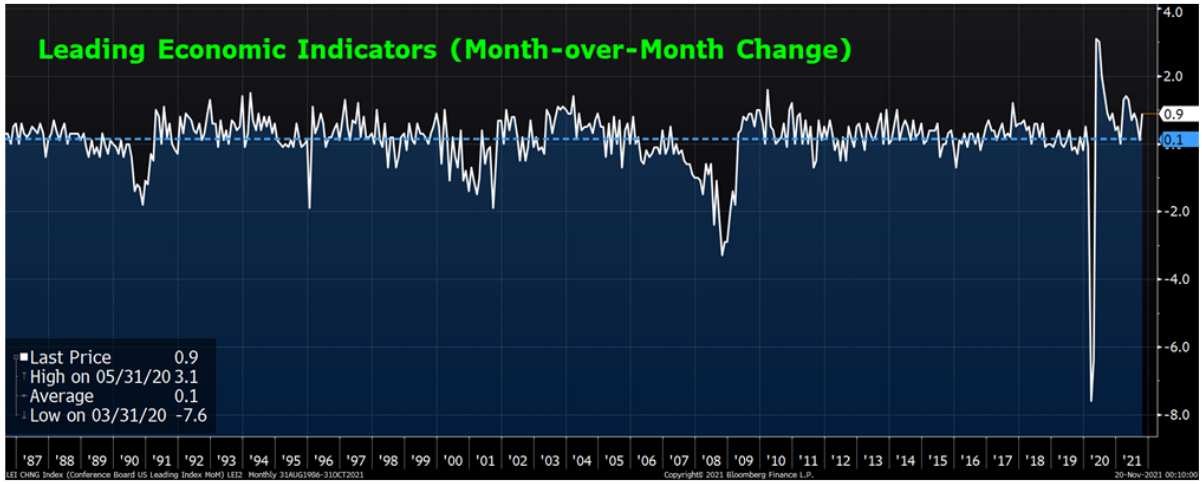
Industrial production jumped 1.6% in October, well above projections for a 0.8% advance, as motor vehicle and parts output reversed the declines of the month prior, and manufacturing in general bounced back from Hurricane Ida. The labor market continued to improve as the number of first-time filings for unemployment benefits came in at 268,000 for the latest week, a drop of 1,000 from the week prior and a new pandemic low.

…but the latest Leading Economic Indicators Index came in better than expected,…

THE PRUDENT SPECULATOR

LEI JUMPS A BETTER-THAN-EXPECTED 0.9% IN OCTOBER

"The U.S. LEI rose sharply in October suggesting the current economic expansion will continue into 2022 and may even gain some momentum in the final months of this year. Gains were widespread among the leading indicators...However, rising prices and supply chain bottlenecks pose challenges to growth and are not expected to dissipate until well into 2022. Despite these headwinds, The Conference Board forecasts growth to remain strong in the fourth quarter at around 5.0% (annualized rate), before moderating to a still historically robust rate of 2.6% in Q1 2022."

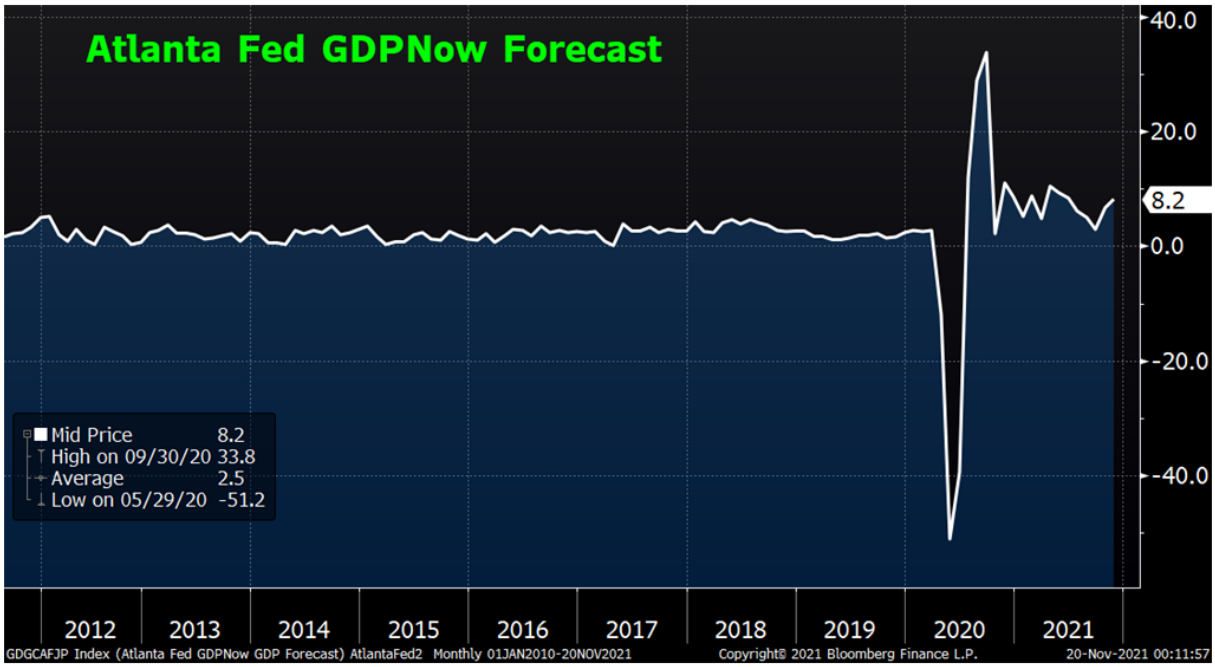


…and the current forecast for Q4 GDP growth is quite strong,…

THE PRUDENT SPECULATOR

BIG JUMP IN U.S. GDP GROWTH ESTIMATED FOR Q4

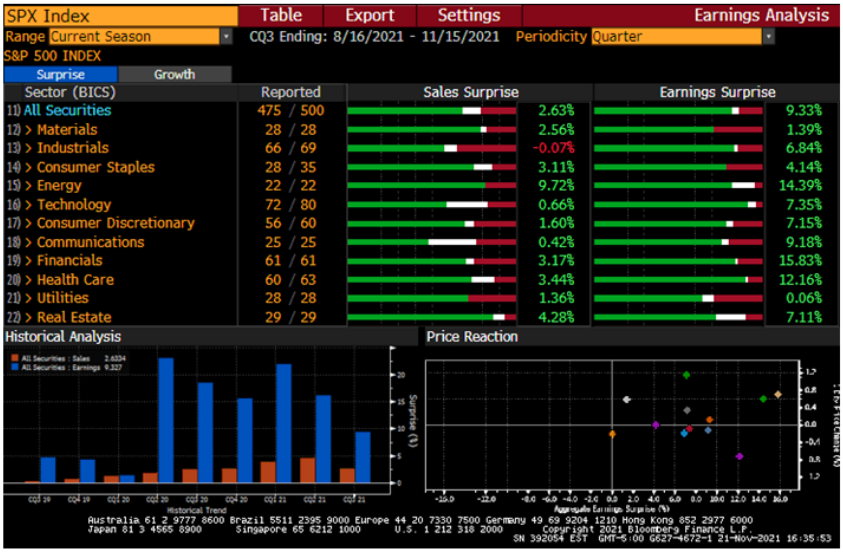
While Q1 and Q2 2021 saw an acceleration, the economic rebound slowed in Q3 to 2.0%, but the Atlanta Fed's current projection for Q4 2021 GDP growth on an annualized basis stands at a robust 8.2%.



…which should lead to another terrific quarter for corporate profits,…

FANTASTIC EPS GROWTH LIKELY IN '21 AND '22

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, 81.7% of the S&P 500 companies have topped EPS expectations and 68.7% 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	$57.08	$219.39
9/30/2022	$56.44	$212.83
6/30/2022	$54.36	$208.63
3/31/2022	$51.51	$206.32
12/31/2021	$50.52	$202.22
9/30/2021	$52.24	$189.88
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 11.18.21

…and allow dividends payouts to continue to increase.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 actually inched up in 2020, despite the pandemic and associated economic turmoil, while in the last two weeks, *TPS* stocks like Keycorp, Tyson Foods, Snap-On and Pinnacle West all hiked their payouts.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 11.18.21)	310	19	3	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2022 (Est.)	$66.05
2021 (Est.)	$61.43
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39

Source: Bloomberg. As of 11.19.21

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Certainly, we realize that downside volatility can occur at any time, and we respect that equities have had a fantastic run this year and since the Pandemic lows last year,…

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS WIN RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.2%	993	27	3.4	3/23/2020	11/18/2021
17.5%	68.1%	581	39	2.3	3/23/2020	11/18/2021
15.0%	66.7%	565	45	2.0	3/23/2020	11/18/2021
12.5%	45.0%	339	72	1.3	3/23/2020	11/18/2021
10.0%	35.4%	248	98	0.9	3/23/2020	11/18/2021
7.5%	23.8%	150	157	0.6	9/23/2020	11/18/2021
5.0%	14.8%	73	307	0.3	10/4/2021	11/18/2021

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 11.18.21. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	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 we continue to like the long-term prospects of our broadly diversified portfolio of what we believe to be undervalued stocks,…

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	15.5	13.9	1.2	2.5	2.1
ValuePlus	16.1	13.7	1.5	2.4	2.0
Dividend Income	14.0	13.1	1.0	2.3	2.7
Focused Dividend Income	15.2	13.9	1.3	2.5	2.4
Focused ValuePlus	15.3	14.6	1.5	2.8	2.1
Small-Mid Dividend Value	12.2	11.3	0.7	1.7	2.3
Russell 3000	28.9	23.5	2.9	4.5	1.2
Russell 3000 Growth	43.0	34.9	5.2	13.5	0.7
Russell 3000 Value	20.9	17.0	1.9	2.6	1.9
Russell 1000	26.8	23.1	3.1	4.7	1.2
Russell 1000 Growth	40.0	33.9	5.7	14.7	0.7
Russell 1000 Value	19.3	16.8	2.0	2.6	1.9
S&P 500 Index	25.8	22.5	3.1	4.8	1.3
S&P 500 Growth Index	35.7	31.0	6.0	11.6	0.6
S&P 500 Value Index	19.1	16.7	2.0	2.8	2.1
S&P 500 Pure Value Index	12.0	10.6	0.8	1.4	2.3

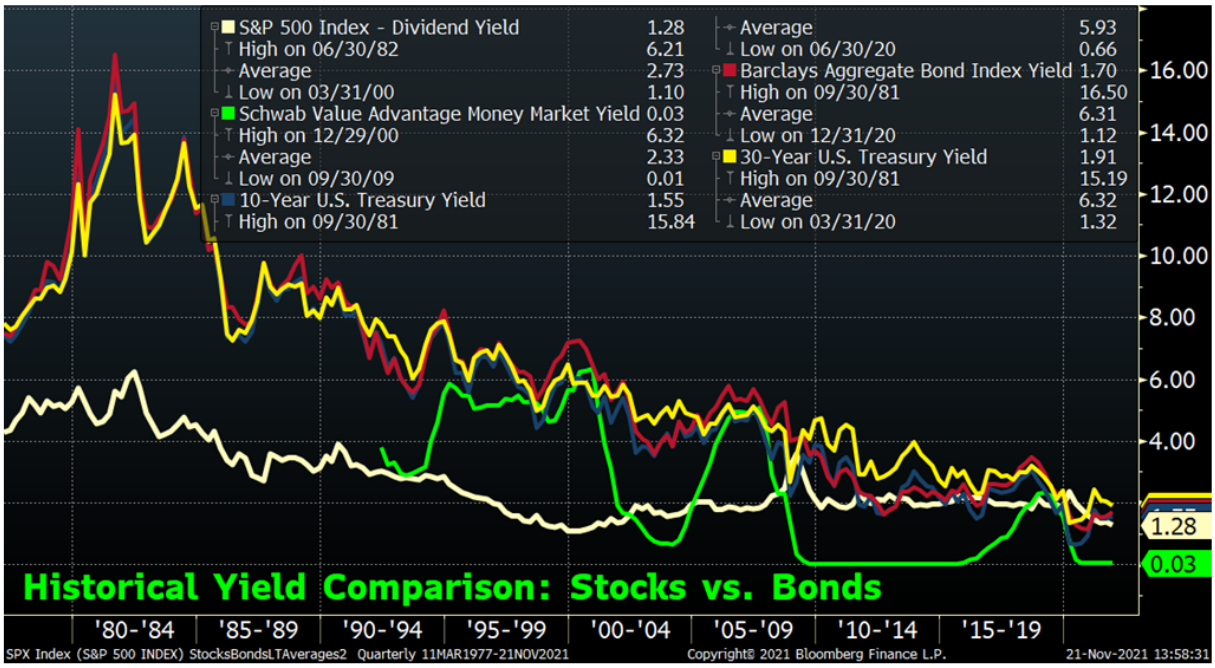
As of 11.20.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…especially given the extraordinarily low interest rate environment.

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

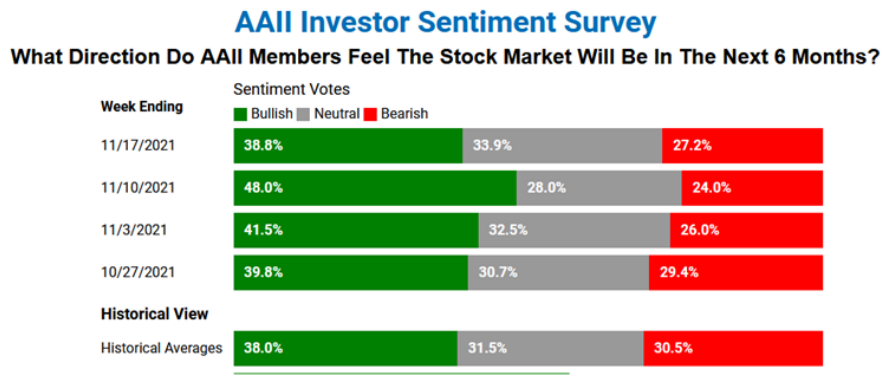
Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.28%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 43 times the yield of a "generous" Money Market Fund!**



We also don't mind, from a contrarian perspective, that last week's turbulence tempered some of the recent enthusiasm for stocks.

THE PRUDENT SPECULATOR

AAII BULLISHNESS CONTRACTS



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	911	0.27%	0.23%	1.28%	1.15%	3.67%	3.28%	7.16%	6.41%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.51%	0.42%	1.96%	1.71%	4.60%	4.13%
Ten Groupings of 1788 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	176	0.35%	0.33%	1.04%	0.91%	3.80%	3.45%	7.10%	6.33%
3	-7.3	-1.2	179	0.32%	0.29%	1.49%	1.39%	3.29%	2.89%	7.13%	6.49%
4	-1.2	3.0	179	0.08%	0.04%	1.10%	1.01%	3.00%	2.64%	6.46%	5.93%
5	3.0	8.0	195	0.06%	0.03%	0.68%	0.59%	2.47%	2.22%	4.64%	4.13%
6	8.1	12.1	162	0.10%	0.08%	0.38%	0.25%	1.61%	1.37%	4.54%	4.06%
7	12.2	16.5	178	0.20%	0.18%	0.71%	0.62%	2.50%	2.25%	5.16%	4.73%
8	16.5	22.0	186	0.17%	0.15%	0.70%	0.63%	2.12%	1.85%	6.09%	5.67%
9	22.0	29.1	172	0.09%	0.08%	0.40%	0.32%	2.04%	1.77%	4.37%	3.79%
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 11.18.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey falling 9.2 points from the week prior and the number of Bears rising 3.2 points is a positive. The 11.6-point Bull-Bear spread is in the 6th decile, where future returns have been just OK.

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 offer updates on nine of our stocks that reported quarterly results last week or had news out worthy of mention.

Cisco Systems (CSCO – $53.25) earned $0.82 per share in fiscal Q1 2022 (vs. $0.81 est.). The communications equipment firm had total revenue of $12.90 billion, versus the $12.99 billion estimate. Shares fell 6% after the sales miss and forward-looking comments by management that underwhelmed investors and analysts. Cisco had product revenue near $9.53 billion (vs. $9.55 billion est.) and service revenue near $3.37 billion (vs. $3.44 billion est.) and an adjusted gross margin of 64.5% (vs. 64.3% est.).

CEO Chuck Robbins said, "We are off to a great start with robust order growth of 33% and continued strong demand across our portfolio. Our teams are executing well, our ARR grew double digits, and our momentum is accelerating, driven by digital transformation and cloud.

Even with the ongoing supply-constrained environment, we are solidly on track to deliver against our long-term financial targets by investing for growth while delivering breakthrough innovation. The past 18 to 24 months have no doubt accelerated the digital revolution we are all experiencing as technology is permanently changing nearly every aspect of our lives. The technology we build is powering the modern secure infrastructure that sits at the heart of this revolution, and Cisco is well positioned to capture the opportunities ahead."

Mr. Robbins continued, "Building on the momentum from last quarter, I'm proud to say we achieved another strong quarter in line with our expectations despite supply constraints, which I will discuss shortly. We delivered balanced revenue and non-GAAP EPS growth with healthy margins driven by continued economic recovery, strong execution and exceptional demand for our products. We also generated a strong quarter of double-digit growth in ARR and RPO, reflecting the ongoing success of our transformation. We have continued to operate successfully in a very dynamic environment, staying nimble in order to navigate the evolving conditions related to the Delta variant and global component shortages."

Mr. Robbins concluded, "While our revenue growth was solid, it was impacted by the supply constraints which are affecting our technology peers and nearly every other industry. Our product orders were extremely strong and balanced across our markets, but we are constrained in what we can build and ship to our customers. We have a world-class supply chain team that works to deliver an incredibly high volume of products given our scale and reach. They continue to execute well in this highly fluid and complex environment. We have been taking multiple steps to mitigate the supply shortages and deliver products to our customers, including working closely with our key suppliers and contract manufacturers, paying significantly higher logistics costs to get the components where they are most needed, working on modifying our designs to utilize alternative suppliers where possible, and constantly optimizing our build and delivery plans. We are doing this at a breadth and scale that is significantly greater than most in our industry. Of course, all of these steps, while necessary to maximize our production and delivery to customers, add to our cost structure. When combined with cost increases we are seeing from many of our suppliers, these factors are putting pressure on our gross margins. While we thoughtfully raised prices to offset this impact, the benefits are not immediate and will be recognized over the coming quarters. Our focus remains on our customers to ensure we provide them with the products they need as quickly as possible."

Cisco expects revenue growth between 5% and 7% for fiscal 2022, which should result in adjusted EPS between $3.38 and $3.45 (unchanged from August's guidance). In our view, IT spending will remain strong, and we believe CSCO should benefit as the world emerges from the pandemic. Unfortunately, it was apparent in Q1 that Cisco is not immune to the pricing and supply chain headwinds, as well as higher freight and component costs. While 2020 was a bit of a struggle for CSCO from an earnings perspective, shares are up 19% this year and analysts project 6% growth in earnings for fiscal 2022. Cisco sports a forward P/E ratio near 15 and a 2.8% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price stands at $68.

Shares of **Kulicke & Soffa** (KLIC – $57.07) tumbled after the chip-equipment maker reported Q4 results that came in below analyst expectations. Of course, there was a bit of an element of

“priced for perfection” reflected in the shares gaining 79% YTD. In fiscal Q4, KLIC earned $2.10 per share (vs. $2.13 est.) and had revenue of $485 million (vs. $481 million est.). While KLIC’s earnings were nearly 6x those for Q4 last year, the earnings growth is expected to moderate, while we think revenue will climb around near the rate of GDP growth.

CEO Fusen Chen commented, “Recently, there have been disruption to global supply chain, including power outage in China, COVID challenge in Southeast Asia and the freight challenge globally. Specifically, within our industry, additional constraints more recently related to substrate and the wafer capacity shortfall, which are constraining the rate of industry growth. We ultimately expect this near-term bottleneck will gradually improve. Specifically, we anticipate improvement in wafer starts towards the end of fiscal 2022, which is consistent with our expectation of a multiyear industry expansion period. It’s also critically important to understand that this bottleneck ultimately stems from a short-term inability for industry capacity to meet end market demand as we transition into the [new data era] of semiconductor demand.”

Mr. Chen continued, “I wanted to reiterate our optimism as we look beyond fiscal 2022. Over the past 4 years, we have worked closely with the customers to solve challenges within the display, automotive and the semiconductor assembly market. This close relationship with the industry leader have allowed us to take a calculated risk and pursue multiple development initiatives in parallel. Today, these past investments are beginning to generate returns. Over the last years, we have introduced and driven market adoption of several high potential systems that directly support high-growth opportunities within the automotive, semiconductor and advanced display market. These systems are at a different stage of maturity, providing ongoing opportunity to create value for investors. We have made many organization refinements, which have enhanced this value creation process. We continue to have a funnel of new opportunities that provide additional upside to our long-term target. I look forward to providing additional details on the status of our recent product release and the new development initiatives over the coming quarters.”

CFO Lester Wong added, “We intend to continue tactically taking advantage of market misperceptions through the use of our open market repurchase program. For the December quarter, we expect demand to remain very strong and anticipate approximately $460 million of revenue, plus or minus $20 million. Considering our efforts to stretch capacity and deliver additional advanced display solutions during the September quarter, this December quarter outlook reflects fairly consistent linear demand for the majority of our products. This continued strength support our view of a multiyear industry expansion period and keep us well on track to reach and potentially exceed our long-term financial targets. We expect gross margins to be 47% in the December quarter, plus or minus 50 basis points, due largely to ongoing manufacturing efficiency and strength of higher-margin products. Non-GAAP operating expenses is expected to be approximately $77 million, plus or minus 2%; and non-GAAP EPS to be $1.88, plus or minus 10%. We continue to anticipate supply chain challenges to contribute to overall industry growing pains. Looking further out, increased wafer starts should ease these constraints and continue to support above average semiconductor growth through fiscal 2023.”

KLIC operates in a volatile sector, and we think that the supply chain shortages paired with the general lumpiness of the business makes it difficult to argue for earnings growth above what

analysts are already expecting. However, KLIC's inexpensive price multiples can expand substantially (the forward P/E is under 10) and we think that any stability in the business will be reflected in wider multiples. The balance sheet is also solid (including nearly $700 million of net cash). Given the YTD rally in the stock price, the just-hiked quarterly dividend of $0.17 results in a modest 1.2% yield, but our Target Price has been lifted to $84.

Qualcomm (QCOM – $185.00) hosted its annual *Investor Day* on November 16 and shares rose 12% as a result of management's comments on growth prospects for the semiconductor designer, pushing the YTD total return above 23%.

CEO Cristiano Amon commented, "When we look of the situation today, we see an incredible number of changes in the industry that are driving the need for technology. So those industry trends, I'm not going to be able to cover them all, but it's really been putting Qualcomm at the intersection in creating demand for technology virtually across every industry. Accelerated digital transformation. That is happening at every enterprise. It got accelerated by the pandemic, but it's not pandemic related. It's about increasing the percentage of digital in the economy. Every single company is going through the process of becoming digital, accelerating digital transformation, working from anywhere. Working from anywhere is changing computing. It's accelerating the connection between physical and digital spaces. It's changing home broadband. It's changing IoT at the home and at the enterprise. Conversions of mobile NPC is real. This is an area of incredible excitement for Qualcomm. And at the end of the day, connectivity, advanced efficient processing in AI is really gaining scale at the EDGE. The metaverse, different versions of what is going to be the connection between digital and physical, is going to enable the next computing platform."

Mr. Amon continued, "As we look at every single end market that we are powering, and we're just at the beginning of that transition, with the full dimension of what the connected intelligent EDGE, we see the opportunity to address a $700 billion addressable market in the next decade. That's one of the single expansion and create really secular growth opportunities. That's why this company can no longer be defined by a single market and a single end customer. And that's the most exciting part of where Qualcomm is going and how we think about the future of this company…There is belief in the market today in the cloud growth. I think it's undisputed. You just look at the valuation of some of the hyperscalers, cloud providers. And there's this belief that the cloud will continue to grow exponentially. Just if you look at the CapEx projections, 35% year-over-year growth. If you believe in the growth of the cloud, you believe in the Qualcomm growth plan. Because for the cloud to generate all of this data, you need billions of devices to be connected, to be intelligent, to have contextual information and AI will get scale at the EDGE. We're very aligned and you're going to see that through this presentation with the pace of digital transformation and cloud economy."

Mr. Amon closed, "We're truly at the beginning of one of the largest opportunities in our history. The industry trends are creating new vectors of growth for Qualcomm. And we're seeing demand for technology virtually across every industry. We have one technology road map that is highly leveraged. It's designed to scale and is driving earnings expansion for our business. And we're focused on customers in end markets that drive stable, long-term revenues. This is an example of expanding our TAM and diversification while increasing margins and shareholder

returns. And at the end of the day, an intelligent connected EDGE, virtually all roads — virtually was put in for legal purposes — virtual, all roads lead to Qualcomm."

Microsoft (MSFT – $343.11) CEO Satya Nadella joined the QCOM conference and added, "Looking back, there is no question that in the past 20 months have been a catalyst for an unprecedented wave of digital transformation that's creating important new opportunities for our customers. Fundamentally, we are moving from a mobile and cloud era to an era of ubiquitous computing and ambient intelligence. To put this in perspective, by 2030, there will be 50 billion connected devices, more than double the number today. This means the places we go to, the things we interact with, will increasingly be digitized, creating new opportunities and new breakthroughs. From precision medicine to precision agriculture, from personalized e-commerce to personalized education, from connected manufacturing floors to connected homes, that's why our partnership with Qualcomm is so important to us. Qualcomm is the leader at the intelligent edge, driving advances in efficient computing, wireless connectivity and on-device AI, and your vision for a future of technology where everyone and everything is intelligently connected is aligned with our own. Together, we are helping our customers apply the power of our entire technology stack to meet the real-world needs of today and tomorrow."

QCOM did not formally raise guidance beyond the $10.0 billion to $10.8 billion of revenue and $2.90 to $3.10 of adjusted EPS it offered for fiscal Q1 on November 3, but we suspect many of the forward-looking statements were too far in the future to be captured next quarter. Still, many Wall Street analysts lifted their target prices (usually 12-month) to near $200 from $185 because of the *Investor Day* action. We remain as enthusiastic about QCOM as we were in our last update on November 8, and our three-to-five year Target Price has been upped to $215.

After posting very good fiscal Q4 results that included a better-than-expected top- and bottom-line, shares of **Tyson Foods** (TSN – $81.51) ended the week slightly in the green. The three-month period for the protein producer saw revenue come in at $12.81 billion, versus the consensus analyst estimate of $12.71 billion, while adjusted EPS of $2.30 topped the consensus forecast of $2.16. Sales were 11.7% higher than the comparable period in 2020, and 17.7% higher than the same time frame in 2019. The Q4 sales beat was driven by strong price/mix (+24.2% year-over-year), partially offset by weaker volumes, primarily due to labor constraints. The labor situation at Tyson seems to be improving, which should drive volume growth and improve product mix across all protein categories in in fiscal '22. This will be a key improvement area as we don't see beef margins continuing at the torrid 18% level realized in fiscal 2021.

"We delivered double digit sales and earnings growth during the fourth quarter and full year, and our performance was supported by our diverse portfolio and continued strength in consumer demand for protein," said CEO Donnie King. "We delivered a record performance in our beef segment and experienced share gains in our retail core business lines, which include our Tyson, Jimmy Dean, Hillshire Farm and Ball Park iconic brands, while supporting the continued recovery in foodservice."

Mr. King added, "To foster continuous improvement and faster decision making, we're launching a new productivity program designed to deliver more than $1 billion in annual savings

by the end of 2024. The focus of this plan includes operational and functional excellence, digital solutions, and automation and advanced technologies…We have tremendous opportunity ahead as we work to fulfill growing global demand for safe and nutritious protein products. We're entering fiscal 2022 with great momentum and are committed to delivering strong returns for shareholders into the future."

While there will continue to be operational headwinds with elevated input costs, we believe Tyson should benefit from positive global trade developments and the choppy but persistent global reopening of restaurants. We like the potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as residents see quality-of-life improvements. Tyson trades with an attractive forward P/E ratio of slightly more than 11 and a dividend yield of 2.3%. Our Target Price for TSN has been hiked to $112.

Earnings reports out last week for several of our retailers were fantastic on most counts, particularly given all the noise related to inflation and supply chain constraints. Indeed, sales growth for these companies averaged 4.4% versus the prior year quarter (1% above the consensus analyst estimate). And, median earnings for the set grew 37.9%, far better than the 14% median analyst growth estimate, while the lowest among them rose 8.2%. Share price

action was less enthusiastic, however, as near-term margin pressures seemingly carried more weight for many investors.

For another impressive quarter, **Walmart** (WMT – $142.39) grew revenue at an above-trend rate in the latest quarter, earning $1.45 in Q3. Strong comparable sales growth (ex. fuel) at Walmart U.S. (9.2%) and Sam's Club (13.9%) contributed to top line-growth of over 4%. Management repurchased $7.4 billion in shares year to date, representing around 35% of the $20 billion authorization announced earlier this year.

WMT CEO Doug McMillon said, "Our momentum continues with strong sales and profit growth globally. Our omnichannel focus is pushing digital penetration to record levels. We gained market share in grocery in the U.S., and more customers and members are returning to our stores and clubs around the world. Looking ahead, we have the people, the products, and the prices to deliver a great holiday season for our customers and members."

Given its scale, we think Walmart is uniquely positioned to attract customers in the current environment. Mr. McMillon added, "Fighting inflation is in our DNA. Sam Walton loved that fight, and so do we. I want to thank our truck drivers, merchants, replenishment teams, our associates that move inventory through the supply chain, and our suppliers. They're working together creatively and quickly. We have lots of variables to manage to deliver everyday low prices." The discount retailing behemoth also continues to develop its logistical infrastructure through a proprietary driver platform called Spark, which is a key component to its white-label delivery platform.

Similarly, **Target** (TGT – $250.70) earned $3.03 in the period as strong trends in same-day pickup lifted overall sales by 7.2% year-over-year to $22.6 billion, although gross margin contracted 260 basis points. Management deployed $2.2 billion to repurchase 8.8 million of shares in the recent quarter, bringing the year-to-date total up to $4.9 billion.

Target CEO Brian Cornell said that sales through same-day services have expanded by nearly 400%, or $2 billion, over the last 2 years. Mr. Cornell added, "Since the third quarter of 2019, prior to the pandemic, Q3 store sales have expanded by $3.8 billion, while digital sales have increased another $3.1 billion. This provides a vivid demonstration of the flexibility of our operating model to serve our guests no matter how they choose to shop. All of these results reflect the level of guest engagement far beyond what many would have imagined a few years ago, when we started making huge investments throughout our business, in our stores, new brands, same-day services, supply chain, and importantly, our team."

Target continues to solidify partnerships with prominent industry players, opening more than 100 Ulta Beauty shop-in-shops, while elevating Apple and Disney exposure. We continue to like TGT's preference for smaller format stores (having reduced square footage per store by roughly 1,000 since January) and efforts to effectively turn them into omnichannel fulfillment centers.

Shares of both WMT and TGT trade within a stone's throw of their historical average P/E multiple, with the dividend yields standing at 1.5% and 1.6%, respectively. Our Target Price for WMT has been boosted to $178 and for Target has been hiked to $280.

Shares of **Lowe's Cos** (LOW – $249.52) rallied over 5% last week on the release of stellar fiscal Q3 results. Not to be outdone by its rival Home Depot, momentum from a strong couple of years persists as the home improvement chain grew its bottom line by nearly 38% year-over-year. Higher average comparable tickets (up 9.7%) and lower COVID related expenses expanded operating margin by approximately 240 basis points. Stores in the U.S. outperformed those in Canada due to a higher exposure to lumber in the latter, as comparable sales growth for the former increased from 28% in August to 40% in October.

Lowe's CFO David Denton commented, "We are seeing continued momentum in our business as reflected in better-than-expected results. Month-to-date, November U.S. comparable sales trends are materially consistent with October's performance level on a 2-year basis as we continue to see early holiday spending trends. Our improved expectations for 2021 include sales of approximately $95 billion for the year, representing 2-year comparable sales growth of approximately 33%. This compares to our prior expectations of approximately $92 billion of sales, which represents approximately 30% comparable sales growth on a 2-year basis."

Mr. Denton added, "We continue to expect gross margin rate to be up slightly versus 2020 levels. With higher projected sales levels and our productivity efforts taking hold, we are raising our outlook for operating income margin to 12.4% from 12.2% for the full year. We expect capital expenditures of up to $2 billion for the year. And as I mentioned earlier, we're now planning to return excess capital to shareholders via an additional $3 billion in share repurchases in Q4. This will bring our total share repurchases to approximately $12 billion for the full year, which is higher than our original expectations of $9 billion due to better-than-anticipated performance."

Even as shareholders have been immensely rewarded in recent years, we are apt to channel Rodney Dangerfield in suggesting, "Lowe's just don't get no respect." Despite a gradual improvement to its operations under CEO Marvin Ellison, shares still trade at a discount to Home Depot. Our Target Price for LOW has been lifted to $274.

Shares of **Foot Locker** (FL – $50.68) sank nearly 12% on Friday as it released Q3 financial results, also bringing down other names in the sector. We were shocked at the reaction as the athletic footwear and apparel retailer earned $1.93 in the period, 40% above the consensus analyst estimate and a 60% improvement from the same quarter last year. FL has some exciting store concepts on the way with the combination of newly merged Eastbay and Champs, while additional recent acquisitions extend customer reach through additional avenues.

FL CEO Richard Johnson commented, "The third quarter was another period of strong performance for our Company that reflects the powerful connectivity we have built with our customers. These impressive top and bottom-line results were against a robust back-to-school season from last year and in spite of the ongoing supply chain challenges. On top of that, we succesfully completed the acquisition of WSS in the third quarter, and subsequently closed the atmos transaction as well, welcoming both of these great teams to the Foot Locker, Inc. family."

CFO Andrew Page added, "The combination of robust demand and fresh inventory, coupled with more full-priced selling, led to gross margin expansion of 380 basis points to 34.7%, from the

30.9% in the prior year period. In addition, we bolstered our already strong balance sheet with the issuance of $400 million of Senior Notes due in 2029, the Company's new credit benchmark and its first offering in over 20 years."

We appreciate the long-term tailwinds from FL's exclusive relationships (specialized SKUs) with Nike, as well as its broad distribution channels, geographic locations, and multiple banners and product categories.

Kohl's (KSS – $57.01) reported Q3 EPS last week that crushed the consensus analyst estimate ($1.65 verses $0.69) and were 68% higher than the latest pre-pandemic comparable quarter. Management repurchased $506 million of shares in the quarter and updated its guidance for all of 2021, with the department store retailer now expecting between $7.10 and $7.30 of earnings per share on the year.

THE PRUDENT SPECULATOR

KSS – ANOTHER FANTASTIC QUARTER

Q3 2021 Results

Key Takeaways

- Achieved record Q3 earnings as both sales and margins exceed expectations and raised full year sales and earnings guidance
- Continued to execute against strategic plan, driving accelerated growth in Active sales and successfully launching several transformational brand partnerships, including the initial rollout of 200 Sephora at Kohl's stores
- Benefited from our efforts to structurally improve our profitability through gross margin expansion and SG&A leverage, delivering the highest Q3 operating margin in nine years
- Repurchased $506 million of shares in the quarter, reinforcing our confidence in the business and commitment to creating shareholder value
- Remain in a formidable financial position with $1.9 billion in cash

Q3 2021 Results

- Net sales increased 16% versus Q3 2020
- Gross margin increased 408 bps compared to last year driven primarily through our inventory management efforts and pricing and promotion optimization strategies
- SG&A expense increased 6% in Q3 and leveraged 273 bps as a percentage of revenue compared to last year driven by improved store labor productivity and marketing and technology efficiency
- Operating margin of 8.4% in Q3 2021, the highest Q3 operating margin in 9 years
- Diluted earnings per share of $1.65 compared to an adjusted diluted EPS[1] of $0.01 in Q3 2020
- Inventory increased 1% versus prior year and inventory turn reached another 10-year high
- YTD operating cash flow of $1.8 billion

KOHL'S (1) - Adjusted diluted EPS is a non-GAAP financial measure. Please refer to the reconciliation included in the Appendix for more information. 5

CEO Michelle Gass commented, "Our strategic efforts to transform Kohl's into the leading destination for the active and casual lifestyle continue to build momentum. We delivered another quarter of record earnings with both sales and margins exceeding expectations. During the quarter, we drove accelerated growth in Active and successfully launched several new brand

partnerships, including the initial rollout of 200 Sephora at Kohl's stores, which are off to a great start."

Whipsawed to and fro and having recovered from a double downgrade in October (and then some), shares rallied some 10% on the earnings release Thursday before suffering a nearly 9% setback on Friday (along with Foot Locker). We reiterate that CEO Michelle Gass and Co. are appropriately focused on 2023 and beyond, having done an exceptional job weathering the pandemic.

Seeing far more good than bad in the latest results, we find the single-digit P/E ratios for both FL and KSS inexplicably cheap, particularly given the strength of their balance sheets. Our respective Target Prices for FL and KSS have been raised to $82 and $80.