

LAFFER | TENGLER

INVESTMENTS

RESEARCH BULLETIN

Nancy Tengler, Chief Investment Officer

September 28, 2021

Markets at a Glance - Index Prices as of 09/24/2021

	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
S&P 500	4,455.48	-0.69%	18.62%
Dow Jones Industrial	34,798.00	-1.61%	13.69%
MSCI World Index	3,103.53	-0.59%	15.37%

Source: FactSet and Bloomberg

S&P 500



Previous Close	4,455.48
52 Week High	4,536.95
52 Week Low	3,246.59
Change (%)	-
1 Day	0.15
1 Week	0.51
1 Month	-0.69
3 Months	4.43
6 Months	14.56
YTD	18.62
1 Year	37.24
3 Year	52.62
5 Year	105.83
10 Year	292.06

Currency: U.S. Dollar | Performance data as of: 24 Sep '21

Source: FactSet

Dow Jones Industrial

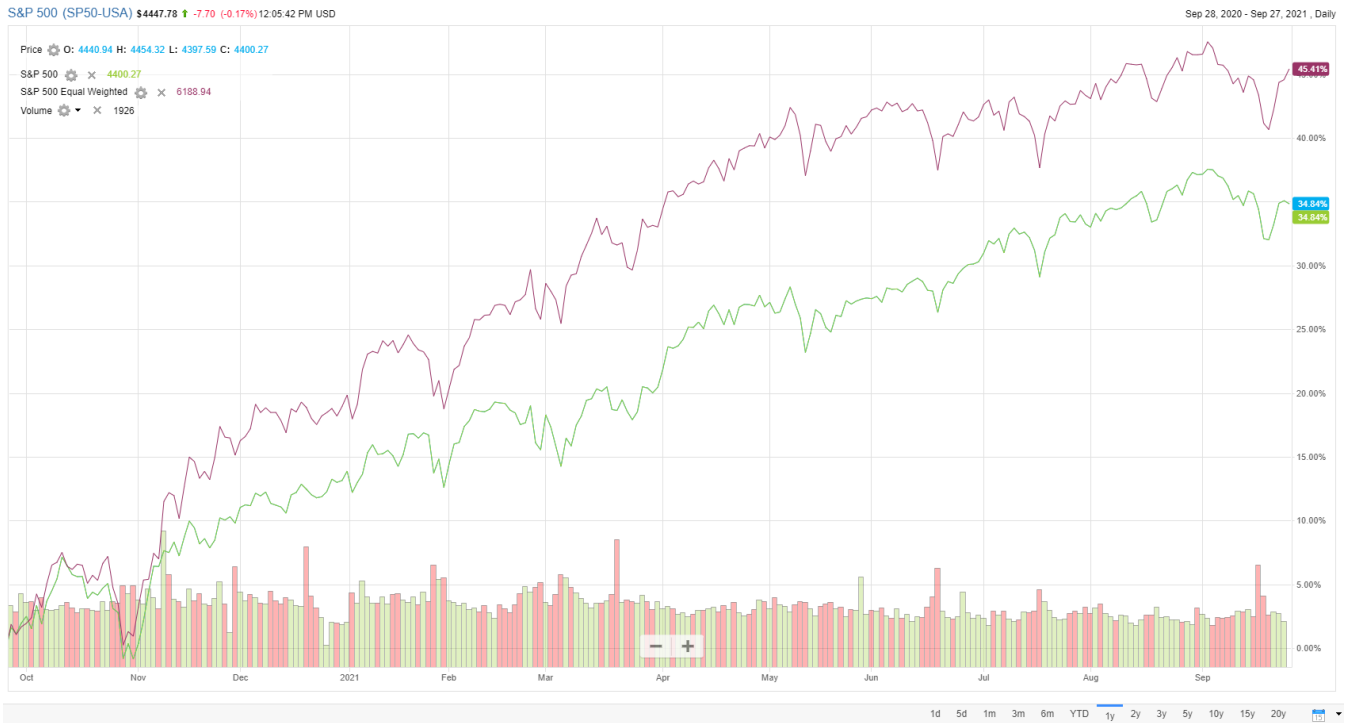


Previous Close	34,798.00
52 Week High	35,625.40
52 Week Low	26,501.60
Change (%)	-
1 Day	0.10
1 Week	0.62
1 Month	-1.61
3 Months	1.76
6 Months	7.33
YTD	13.69
1 Year	29.77
3 Year	31.01
5 Year	90.55
10 Year	223.06

Currency: U.S. Dollar | Performance data as of: 24 Sep '21

Source: FactSet

S&P 500 Index vs. S&P 500 Equal-Weighted Index (1 year)



Source: FactSet

VALUES AS OF 09/27/2021	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
10-Yr US Treasury Yld	1.4733	15.24%	61.33%
30-Yr US Treasury Yld	1.9909	4.98%	21.03%
Dollar Spot Index (DXY)	93.386	0.79%	3.83%
Crude Oil WTI	\$75.51	9.09%	55.63%
Crude Oil Brent	\$79.53	8.34%	53.53%
Natural Gas	\$5.628	30.66%	121.66%
Gold	\$1,752.17 (spot)	-3.21%	-7.70%
Silver	\$22.65 (spot)	-5.76%	-14.20%
Copper (LME, cash)	\$9,343.75	0.31%	20.58%
Platinum	\$983.54 (spot)	-2.63%	-8.26%
Palladium	\$1,966.38 (spot)	-21.22%	-19.70%
Corn	\$539.00	-3.36%	11.36%
Wheat	\$722.25	0.52%	12.76%

Source: Bloomberg

The Outlook for Equities

from Nancy Tengler, Portfolio Manager & Chief Investment Officer

Warning signs the market needs to recalibrate: In the face of rising corporate taxes, increasing regulation, supply chain disruptions and higher wage costs, Wall Street strategists continue to hike earnings estimates for 2022. The average estimate now stands at \$222 which is \$5 higher than estimates in August. Federal Express (FDX) reported lower than expected earnings for their Fiscal Q2 despite strong revenues due to higher labor costs and “resulting inefficiencies”. Add to that margins for the S&P 500 companies have hit another new high at 17.0%. When margins decline, stocks tend to follow.

If Washington has its way, the marginal pressure on earnings and margins is more likely to be down than up.



Source: Strategas, September 22, 2021

Washington has a way of crashing the best parties: The inside the beltway crowd should really get out more. Take our friends at the Fed, for example. Since the Great Financial Crisis the Fed’s focus on 2% inflation has been met with abject failure. They kept money super-easy for a decade, constantly befuddled as to why inflation didn’t manifest despite uber easy Fed policy. Clearly former Chair Yellen was not an Amazon Prime member. Her stated surprise that inflation was MIA harkened back to the photo of President George H.W. Bush, apparently surprised to discover the wonderful world of bar-coding. While that may have been unfair, the mantra of out-of-touch stuck. Fast forward to today’s Fed. We have been hearing all year that the Fed’s viewed inflation as “transitory”. What was initially understood as a few months quickly became a few quarters and may eventually become a few years. Transitory=temporary=brief duration according to Merriam-Webster, but not apparently to the Fed.



Add to the fact that inflation eluded the Fed for 10 years and has now materially exceeded the Fed's target, forcing them to raise their target twice already in 2021. And, despite that, they are still targeting a level well below the year over year rate as expressed by the CPI (below). The headline number is 5.3% and the core is hovering around 4.0% year over year in August. Supply chain disruptions remain acute—Costco (COST) recently announced shortages in toilet paper and paper towels in line with or exceeding early COVID deficiencies—and Federal Express (FDX) missed earnings due to supply chain disruptions slowing shipping volumes and wage pressures negatively impacting the bottom line.



Inflation may indeed alleviate at some point in 2022 but as we have argued it will be with us for some time. Energy costs are up, rents are rising, wages are increasing and inflation expectations (which are a key barometer of future inflation) are at recent highs (though the Fed seems to think otherwise—see below).



Growth is slowing but we are not in the stagflation camp.

Today we added a view of the equally weighted S&P 500 (SPX). It is no secret that five stocks represent about 25% of the cap-weighted SPX. We thought it was high time to add a view of the equally weighted index. The chart below explains. The index may feel topy to some investors, but the average stock has experienced a healthy correction.

Index % Decline From High	
S&P 500	-4.0%
Nasdaq 100	-4.2%
Russell 2000	-7.5%
Average Stock % Decline From High	
S&P 500	-12.5%
Nasdaq 100	-13.9%
Russell 2000	-28.2%

The headline indices may have more to go over coming weeks, but the “average stock” has already been hit pretty meaningfully.

Bonds & Fixed Income

from Jason Weaver, CFA, Head Trader & Portfolio Manager

Since the first notion of trouble with China Evergrande Group reared its head, the financial media, and the sell side investment banks have rushed, though an incessant number of articles and research reports, to insist that it was NOT going to become a systemic event for world markets, the Chinese government and monetary authorities had things well under control and would be resolved quickly and with little losses in the end (aside from its own equity and bondholders.) History tells us though that when opinion is universally one-sided on an event, unexpected effects can emerge that elicit a very disruptive reaction in the case that things do not turn out as planned. While ~\$300B in defaulted debt is certainly not a global crisis in and of itself, the potential fallout from the failure of one of China’s largest property development firms could be.

Enter Kenneth Rogoff, author of “This Time is Different”, and a scholar of financial crises and debt bubbles. Rogoff believes the way forward for China to be very clouded by Evergrande’s failure (as well as a long list of other economic errors that have taken place there under the CCP’s leadership.) China is already in the midst of a slowdown and is extremely dependent on the housing sector to drive growth (why real estate has often been the target for prior stimulus efforts.) Currently, real estate-related enterprises drive nearly 29% of Chinese GDP as estimated vs the US at 15% (at the 2007 peak!.) Per-capita housing investments are roughly equal to those in most EU nations, while per capita income is only a quarter. True, Chinese leaders have been aiming to halve their reliance on real estate for some time, but gradually. However, finding themselves in the midst of the current slowdown and the problems with the sector, pricing pressure is likely to only amplify the slowdown, possibly reaching other parts of the economy such as construction work, and resource extraction. If perhaps GDP growth (not accounting for the property sector slowdown) declines in the next year

from 6% to 4%, adding in the real estate woes may take it down to 2-3% which could prove to be devastating. Moreover, this could have a material impact on commodity exporters such as Australia as well as the EMEA region which could produce reductions in aggregate demand globally, a giant butterfly effect with unforeseen potential to drive even more market volatility.

Convertible Securities

from Stan Rogers, Portfolio Manager

News/Earnings of note:

Despite optimism for a meaningful pickup in new issuance, the calendar was relatively quiet. There were 7 issues in the primary market for total proceeds of \$2.7 billion. The downdraft in the equity market may have caused some issuance to be shelved temporarily.

The convertible portfolio held up quite well during the equity market weakness, as the defensive characteristics helped support on the downside, and we have eked out a small positive gain month-to-date versus negative returns in the broader equity markets.

Equity Hedging

from David Jeffress., Portfolio Manager

On Monday, 09/20/2021, the S&P 500 Index fell as much as 118 points (or approximately 2.60%). During this period, the most recent addition to our put option positions, the 270 strike price contracts expiring on 10/15, increased in value to 0.14. As we have said before, the options we buy each quarter are not intended to hedge a 2% drop in equities, nor would we consider selling these positions for such a modest gain. However, the gain we saw in this contract relative to the brief sell-off we witnessed was reassuring nonetheless as it gives us confidence that we have the appropriate hedge in place should the market experience a more precipitous decline.



Source: Bloomberg

We have spent the last few weeks preparing the accounts for the next round of hedging and we anticipate making the first purchases for the fourth quarter this week.

Nancy Tengler's Recent USA Today Articles

[Consider These Three Investments To Add To Your Portfolio](#) (Aug 24)

[Volatility is Not a Bubble – Here's Why the Market Will Likely Continue to Be Bullish](#) (Feb 24)

[Joining a Reddit Revolution is Not an Investment Plan](#) (Jan 28)

[As You Reshuffle Your 401\(k\) for the Biden Administration, Look Across the Pond](#) (Jan 24)

Nancy Tengler's Recent Media Appearances

[How Will Markets React To Fed Decision?](#) (Fox Business, September 22)

["I Wouldn't Get Near China" For Some Time](#) (CNBC, September 20)

[Trader Flags Warning Sign In Chart Of Natural Gas](#) (CNBC, September 16)

[Nancy Tengler Talks GARP Stocks](#) (CNN, September 8)

[Digital Economy Growth - Assessing Market Valuation Measures](#) (TD AmeriTrade, September 3)

[Will Weakening Data Wreck The Rally](#) (CNBC, September 3)

[S&P 500 Financials Up In August Will It Continue In September](#) (CNBC, September 1)

[Why- Nancy Tengler Likes Honeywell And Salesforce Stock](#) (CNBC, September 1)

[Sector-By-Sector Stock Showdown With Nancy Tengler](#) (CNBC, August 25)

[Nasdaq And S&P 500 Close At Record Highs](#) (CNBC, August 25)

[Experts Weigh In On Market Concerns Amid Afghanistan Conflict](#) (Fox Business, August 23)

[Two Traders Share The Sectors Theyre Picking After Infrastructure Bill Passes The Senate](#) (CNBC, August 10)

[Chinese Stocks Stretch Comeback Into Day Two But Trader Warns It May Not Last](#) (CNBC, August 10)
[Common Thread Of Companies Planning To Do Buybacks](#) (CNBC, August 6)
[Takeaways From The Market](#) (TD AmeriTrade, August 5)
[Nancy Tengler Shares Her Thoughts On Recent Fed Changes](#) (Bloomberg TV, July 29)
[Top Picks For The Automotive Market](#) (CNBC, July 27)
[China Tech Stocks Extend Losses](#) (CNBC, July 27)
[Starbucks Earnings On Deck - What To Expect](#) (CNBC, July 27)
[Is Biden Putting America's Fate In Foreign Hands, Again?](#) (Fox News, July 13)

Completed Analysis Item(s) for Portfolio Companies

**To request any company analyses, please email info@laffertengler.com.*

Broadcom Inc. (AVGO)	Square, Inc. Class A (SQ)
FedEx (FDX)	Ecolab Inc. (ECL)
Intl. Flavors & Fragrances, Inc. (IFF)	Snap-on Incorporated (SNA)
Palo Alto Networks, Inc. (PANW)	Prudential Financial, Inc. (PRU)
Morgan Stanley (MS)	ServiceNow, Inc. (NOW)
Boeing (BA)	Facebook, Inc. (FB)
Goldman Sachs (GS)	Home Depot, Inc. (HD)
Visa (V)	Apple Computer, Inc. (AAPL)
AbbVie (ABBV)	Walmart Inc. (WMT)
Tiffany & Co. (TIF)	Starbucks Corporation (SBUX)
Walt Disney Company (DIS)	Microsoft Corp. (MSFT)
International Paper Co. (IP)	Johnson & Johnson (JNJ)
Salesforce.com (CRM)	Cisco Systems, Inc. (CSCO)
Micron (MU)	Amgen Inc. (AMGN)
Pfizer (PFE)	JPMorgan Chase & Co. (JPM)
AT&T (T)	Texas Instruments Inc. (TXN)
Boston Scientific Corp. (BSX)	United Parcel Service, Inc. (UPS)
Western Digital Corp. (WDC)	McDonald's Corporation (MCD)
Fortive Corp. (FTV)	PepsiCo, Inc. (PEP)
Pinnacle West Capital (PNW)	Medtronic Plc (MDT)
Danaher Corporation (DHR)	Dominion Energy (D)
Southwest Airlines Co. (LUV)	PNC Fin. Serv. Group, Inc. (PNC)
QUALCOMM Inc. (QCOM)	BlackRock, Inc. (BLK)
Dominion Energy (D)	Roku, Inc. (ROKU)
Booking.com (BKNG)	Chevron Corporation (CVX)
Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI)	Lam Research Corp. (LCRX)
Becton, Dickinson and Co. (BDX)	II-VI Incorporated (IIVI)
American Tower Corp. (AMT)	3M Company (MMM)
Illinois Tool Works (ITW)	Roku, Inc. (ROKU)
	Coca-Cola Company (KO)
	Comcast Corporation (CMCSA)
	D.R. Horton, Inc. (DHI)
	Fastenal Company (FAST)

Intel Corporation (INTC)
Procter & Gamble Company (PG)
T. Rowe Price Group (TROW)
Raytheon Tech. Corp. (RTX)
Chipotle Mexican Grill (CMG)
Target Corporation (TGT)
Alphabet Inc. Class A (GOOGL)
American Express Co. (AXP)
Honeywell Int'l Inc. (HON)
Lowe's Companies, Inc. (LOW)
Splunk Inc. (SPLK)
Ulta Beauty Inc. (ULTA)
Amazon.com Inc. (AMZN)
Emerson Electric Co. (EMR)
BCE Inc. (BCE)
Tyson Foods (TSN)
Magellan Mid. Partners (MMP)
Lululemon Athletica Inc. (LULU)
CVS Healthcare Corp. (CVS)
Taiwan Semi. Manuf. Co. (TSM)
Truist Financial Corp. (TFC)
Lockheed Martin Corp. (LMT)
BHP Group (ADR) (BHP)
Lumentum Holdings, Inc. (LITE)
NVR, Inc. (NVR)
Twitter, Inc. (TWTR)
Freeport-McMoRan, Inc. (FCX)
Dominion Energy, Inc. (D)
Trimble Inc. (TRMB)
Littelfuse, Inc. (LFUS)
Jacobs Engineering Group (J)
Air Prod. and Chemicals (APD)
Steel Dynamics Inc. (STLD)
BorgWarner, Inc. (BWA)
Lear Corporation (LEA)
Exelon Corporation (EXC)
L3Harris (LHX)
Corning Inc. (GLW)
Diamondback Energy (FANG)
EOG Resources, Inc. (EOG)
Splunk, Inc (SPLK) – convertible
Oracle Corporation (ORCL)
Unilever (UL)
AES Corp. (AES) – convertible
Martin Marietta Materials, Inc.
(MLM)
Americold Realty Trust (COLD)
Xylem Inc. (XYL)
Quest Diagnostics Incorporated (DGX)
Viacom CBS (convertible)
Winnebago Industries Inc. (WGO)
Twitter Inc. (TWTR) - convertible
Enbridge (ENB)
Vertex Pharmaceuticals (VRTX)
Lumentum Holdings, Inc. (LITE)
Stryker (SYK)
Phillips 66 (PSX)
Hormel Foods Corp. (HRL)
Public Storage (PSA)
DexCom Inc. (DXCM)
UnitedHealth Group Inc. (UNH)
LyondellBasell Industries NV (LYB)
Kimberly-Clark Corporation (KMB)
Caterpillar Inc. (CAT)
Molson Coors Beverage Co. (TAP)
Oracle Corporation (ORCL)
Winnebago Industries Inc. (WGO)
Tyson Foods Inc. (TSN)
Kimco Realty Corporation (KIM)
Weyerhaeuser Company (WY)
Zscaler, Inc. (ZS)
Fortinet Inc. (FTNT)
Palantir (PLTR)
Bank of New York Mellon (BK)
PulteGroup, Inc. (PHM)
Amphenol Corporation Class A (APH)
Discovery, Inc. Class C (DISCK)
Fox Corporation (FOXA)
Adobe Inc. (ADBE)
Arista Networks Inc. (ANET)
BJ's Wholesale Club (BJ)
AutoNation, Inc. (AN)
Dollar Tree, Inc. (DLTR)
Darden Restaurants, Inc. (DRI)
Charter Communications, Inc. (CHTR)
TJX Companies, Inc. (TJX)
Discover Financial Services (DFS)
O'Reilly Automotive, Inc. (ORLY)
NiSource Inc. (NI)
Exelixis, Inc. (EXEL)
Chubb Limited (CB)
Gilead Sciences, Inc. (GILD)
Hershey Company (HSY)

Interpublic Group of Companies, Inc. (IPG)
Zebra Technologies Corp. (ZRBA)
Lincoln National Corporation (LNC)
FMC Corporation (FMC)
National Instruments Corporation (NATI)
Newell Brands Inc. (NWL)
JM Smucker Company (SJM)
Darden Restaurants Inc. (DRI)
Adobe Inc. (ADBE)
Polaris, Inc. (PII)
Compass Minerals International, Inc. (CMP)
Electronic Arts Inc. (EA)
iRobot Corporation (IRBT)
Constellation Brands, Inc. (STZ)
Best Buy Co., Inc. (BBY)
CME Group Inc. Class A (CME)

Nasdaq, Inc. (NDAQ)
Bunge Limited (BG)
DTE Energy Company (DTE)
Southern Company (SO)
NextEra Energy, Inc. (NEE)
NiSource Inc. (NI)
Anglo American Plc ADR (NGLOY)
Vale S.A. Sponsored ADR (VALE)
First Quantum Minerals Ltd. (FQVLF)
Southern Copper Corporation (SCCO)
Reliance Steel & Aluminum Co. (RS)
Cleveland-Cliffs Inc. (CLF)
Wheaton Precious Metals Corp. (WPM)
Pan American Silver Corp. (PAAS)
Turquoise Hill Resources Ltd. (TRQ)
Parsons Corp. (PSN) – convertible
Zillow Group, Inc. (Z)
VICI Properties (VICI)

THE LAFFER TENGLER INVESTMENTS DISCIPLINE

Discipline is key to sustainable long-term total returns:

- At Laffer Tengler Investments we use two, time-proven stock valuation metrics (both pioneered by our team) that are consistent and robust indicators of value: Relative Dividend Yield (RDY) and Relative-Price-to-Sales Ratio (RPSR).
- Why not use earnings like almost everyone else? Because earnings are often an unreliable indicator of value. In May of 2016, I published the following:

Earnings reported by corporations have always been subject to the vagaries of accounting gimmickry. You don't have to be a novice to scratch your head at the way managements (or governments for that matter!) account for various items.

A recent case in point: The Wall Street Journal (Thursday, February 25, 2016) reported that according to FactSet, pro forma earnings for S&P 500 companies rose 0.4% in 2015. Using generally accepted accounting principles or GAAP, earnings per share actually fell 12.7% in 2015 (this according to S&P Dow Jones Indices). The author's point is that according to GAAP earnings, investors are paying a great deal more for stocks than they think. The price-to-earnings ratio (P/E) on pro forma earnings (which is the most commonly accepted method) is 17x 2015 earnings. But when GAAP earnings are considered, the P/E jumps to more than 21x.

It is important to remember that the P/E ratio for any given stock is only as good as the price input (a fact) and the reported earnings input (apparently not a fact at all).

- **RDY** measures the yield of a particular stock compared to the yield on the S&P 500 and does so over long periods of time. Since a stock's relative yield and relative price are inverse, we can generally conclude that as a stock's yield is rising, its price is declining—similar to a bond. Consequently, a rising RDY provides an opportunity for investors to at least consider an underperforming, cheaply valued stock for purchase.



- Company managements and boards of directors pay the dividend out of free cash flow, not earnings. In maturing U.S. companies these seasoned professionals often operate within a

“dividend paying culture” and set the dividend as a portion of long-term, sustainable real earnings power because management teams are loathed to cut dividends.

- The relative nature of the RDY metric is also important because it measures the relative attractiveness of a stock compared to its own history and compared to the S&P 500. (In 1992, I co-authored Relative Dividend Yield, Common Stock Investing for Income and Appreciation with Tony Spare)

- **RPSR:** In fallen-angel growth companies where the dividend is less of a factor in management’s calculus, we look at sales—a fact. Rarely are sales manipulated and when they are someone usually goes to jail. The price-to-sales ratio measures how much investors are paying for a unit of sales, the relative price-to-sales ratio reveals what investors have historically paid for a particular company’s sales compared to what they are paying for the sales of all the companies in the S&P 500. In 2003, I authored New Era Value Investing, John Wiley & Sons where I outline the benefits of RPSR in stock selection.



- Discipline, in summary, is the only way to navigate volatile markets. We remain disciplined and over time that consistency generates excess return.

**Fundamental Research reduces the ownership of terminally cheap companies:
Meet the 12 Fundamental Factors.**

Our proprietary research approach analyzes fundamental qualitative and quantitative factors.

- **Qualitative Factors:** Catalyst for Outperformance, Franchise Value & Market Growth, Top Management/Board of Directors.
- **Quantitative Factors:** Sales Growth, Operating Margins, Relative P/E, Positive Free Cash Flow, Dividend Coverage/Growth, Asset Turnover Ratio, Use of Cash (buyback, debt, div.), Leverage, Financial Risk.

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There is no assurance that a portfolio will achieve its investment objective.

Definitions and Indices

The S&P 500 Index is a stock market index based on the market capitalization of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor’s.

Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions, or other expenses of investing. Investors cannot make direct investments into any index.

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