6-15-20

WEEKLY UPDATE

As the U.S. economy gradually reopens, we hope you and your family stay safe and healthy.

Economic and Market Performance

MARKET INDEX	CLOSE 6-12-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	25,606	-5.5%	-10.0%
S&P 500	3,041	-4.8%	-5.9%
NASDAQ	9,589	-2.3%	+6.9%

Last week, the National Bureau of Economic Research declared the U.S. recession started in February, ending a 128-month expansion—the longest dating to 1854. With the country locked down because of the coronavirus pandemic, the economy has tumbled into such a deep recession that some forecasters predict up to a record 40% decline in gross domestic product in the second quarter.

The Fed expects a steep 6.5% contraction in real U.S. GDP for the full year 2020, with an unemployment rate at 9.3% by year's end. However, policymakers expect real GDP to rebound by 5.0% in 2021, with the unemployment rate dropping to 6.5%. The Federal Reserve pledged to hold interest rates unchanged at near zero through 2022 while keeping up at least its current pace of bond buying to support credit markets through the pandemic. Jay Powell, the Federal Reserve chairman, said, "We're not thinking about raising rates, we're not even thinking about thinking about raising rates." He added that "many millions of people" will likely need further government support in the coming months as they will not regain their jobs.

Treasury Secretary Mnuchin said he is prepared to go back to Congress for additional money, including money for state and local governments. He added that the U.S. will not shut down its economy again. Mnuchin believes there will be large growth in third quarter GDP, and he is optimistic on medical progress in dealing with the virus. Three key studies of COVID-19 vaccines are expected to launch this summer, including one by **Johnson & Johnson.**

The quickest bear market on record in February and March has been followed by one of the quickest stock market recoveries ever, fueled by historic financial aid from the U.S. government and the Federal Reserve. Last week, the NASDAQ briefly surpassed the 10,000 milestone to hit a record high. Technology companies like **Facebook**, **Apple**, **Alphabet** and **Microsoft** have led the way due to an acceleration in the adoption of e-commerce, a shift to cloud computing and remote work, as well as the companies' fortress balance sheets and global user bases.

However, amid elevated volatility, the stock markets sharply reversed course late last week. The Dow ended the week down 5.5%, the S&P 500 declined 4.8% and the NASDAQ lost 2.3% as cases of COVID-19 resurged in 20 states, and Mr. Market assessed the Federal Reserve's sober economic outlook.

HI-Quality Company News

Johnson & Johnson

Johnson & Johnson-JNJ announced it has accelerated the initiation of its COVID-19 vaccine human trials. Initially scheduled to begin in September, the trial is now expected to commence in the second half of July. The company is in discussions with the National Institutes of Allergy and Infectious Diseases with the objective to start the Phase 3 clinical trial ahead of its original schedule. The company committed to the goal of supplying more than one billion doses globally through the course of 2021, provided the vaccine is safe and effective. To get long-term immunity, booster shots might be required 2-3 years later.

Alphabet's Google is planning to introduce additional features on its Maps navigation app to alert users of COVID-19 travel restrictions. The alerts are intended to help users plan their trips accordingly if government mandates impact bus and train services or require wearing a mask on public transportation. In addition, Google Maps is also introducing driving alerts to notify users about COVID-19 checkpoints and restrictions along a route, for example when crossing national borders starting first in Canada, Mexico and the U.S. Furthermore, when navigating to medical facilities or COVID-19 testing centers, Google Maps will display alerts reminding users to verify eligibility and facility guidelines to avoid being turned away or causing additional strain on the local healthcare system.

Mastercard is monitoring the impact of the pandemic and related actions being taken by governments as it relates to border restrictions, social distancing measures and opening of businesses, and the resultant impact on spending levels. The company continues to see the transition from the Stabilization phase to the Normalization phase in most markets domestically. The Stabilization phase is characterized by spending stabilizing around new lower levels as a result of compliance with social distancing and mobility limitations. The Normalization phase occurs when these restrictions are relaxed and spending begins to gradually recover from the new lower levels, with some sectors recovering faster than others. Spending is improving in clothing, gas, home improvement, restaurants and domestic travel. Cross-border volume continues to be impacted by the decline in travel and remains essentially unchanged.

Starbucks reported that its business is steadily recovering and moving beyond the "mitigate and contain" phase of dealing with the pandemic into the "monitor and adapt" phase, as the company re-opened the vast majority of its stores around the world. With each passing week, Starbucks is seeing clear evidence of business recovery, with sequential improvements in comparable store sales performance. The Starbucks brand is resilient, customer affinity is strong, and management believes the most difficult period is now behind them. Operating margins have shown gradual improvement with the preliminary estimates for GAAP and non-GAAP EPS of approximately $0.33 to $0.73 and $0.55 to $0.95, respectively, for fiscal 2020. Given the company's financial strength and the steady recovery progress, management remains confident in their ability to maintain appropriate liquidity through the current crisis. There has been no change to fiscal 2020 capital allocation plans with the temporary suspension of share repurchases, uninterrupted quarterly dividends and capital expenditures of approximately $1.5 billion.

Brown-Forman reported COVID-19 began to affect company performance in the middle of March and continued throughout April as both on-premise, representing about 20% of global business, and Travel Retail channels essentially came to a halt. Brown-Forman experienced strong growth in the off-premise and e-premise channels across most developed markets as country lockdowns and government restrictions resulted in increased at-home consumption and some pantry loading. Consumers looked for trusted brands like Jack Daniel's and affordable luxuries during the pandemic in developed markets. Emerging markets without safety nets will remain challenging. For the full fiscal 2020 year, revenues increased 1% to $3.4 billion with net income and EPS each dipping 1% to $827 million and $1.73, respectively. Return on equity for the year was a cheerful 42%. Free cash flow declined 10% during the year to $611 million with the company paying $325 million in dividends. Brown-Forman has paid dividends for 75 consecutive years and has increased the dividend for 36 uninterrupted years.

With a strong balance sheet, solid cash flows and ample liquidity, the company expects to fully fund ongoing investments in the business and pay regular dividends. With an attractive portfolio of brands in growing categories and a resilient supply chain, Brown-Forman expects to successfully navigate these uncharted waters, similar to other challenges encountered over the last 150 years, and emerge an even stronger company with healthier brands to drive growth for the next generation.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President