Hendershot INVESTMENTS

4-8-2024

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 04/5/2024	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	38,904.04	-2.3%	+3.2%
S&P 500	5,204.34	-1.0%	+9.1%
NASDAQ	16,248.52	-0.8%	+8.2%

Amid turmoil in the Middle East, rising oil prices and a strong employment report that may cause the Fed to delay interest rate cuts, the stock market pulled back last week with the Dow Jones dropping 2.3%, the S&P 500 falling 1.0% and the NASDAQ slipping 0.8%.

Economic Releases

First-time claims for state unemployment benefits—a proxy for layoffs—increased 9,000 from last week to 221,000 for the week ended March 30 while continuing claims—a proxy for the number of people with ongoing unemployment benefits—decreased by 19,000 to 1.79 million from the previous week. The low and steady level of initial jobless claims points to employment conditions that remain favorable for continued economic growth.

March employment report headlines paint a picture of a strong labor market employing more workers with moderating wage gains which will likely keep the Fed on hold for longer in cutting interest rates. Nonfarm payrolls increased by a higher-than-expected 303,000, the unemployment rate dipped to 3.8%, average hourly earnings were up 0.3% and the average workweek increased to 34.4 hours. The labor force participation rate rose a solid two-tenths to 62.7%. The unemployment rate has remained below 4% for 26 straight months, the longest stretch since the late 1960s. Over the last 12 months, average hourly earnings have risen 4.1%, the lowest annual gain since June 2021, versus 4.3% for the 12 months ending in February. Wage growth in a 3% -3.5% range is considered consistent with the Fed's 2% inflation target. Meanwhile, the National Federation of Independent Business' measure of small businesses planning to add jobs over the next three months, viewed as a good predictor of payroll gains, fell in March to the lowest level since May 2020.

In the separate JOLTS report or household survey for February, the number of job openings changed little at 8.8 million and the number of job openings for each unemployed worker was flat at 1.4. This ratio is down from a peak of 2.0 in 2022 and almost back to a pre-pandemic average of 1.2. Fed officials closely watch the ratio as a gauge of labor market strength.

Factory orders increased 1.4% month-over-month in February after declining a revised 3.8% in January. New orders for nondefense capital goods excluding aircraft—a proxy for business spending— jumped 0.7% after falling 0.3% in January. Shipments of manufactured goods were up 1.4% after a 0.8% decline in January.

The *ISM Non-Manufacturing PMI®* decreased to 51.4% in March from 52.6% in February. The dividing line between expansion and contraction is 50.0%, so the March reading reflects services sector activity—the largest slice of the U.S. economy--expanding at a slower pace from February even as March marked the 15th consecutive month of growth in the services sector. The March *ISM Manufacturing Index®* was 50.3%, the first reading above 50.0% since September 2022. The report contained data indicating business activity is expanding, prices are sticking at higher levels and employment conditions remain healthy, all reasons to support patience by the Fed before cutting interest rates.

Personal income increased 0.3% month-over-month in February while personal spending jumped 0.8%. The core PCE Price Index, the Fed's preferred inflation measure which excludes food and energy, rose 0.3% on the heels of a 0.5% increase in January. On a year-over-year basis, the core PCE Price Index was up 2.8%, versus 2.9% in January.

The trade deficit in February widened to $68.9 billion from a downwardly revised $67.6 billion in January. Both exports and imports increased in February, reflecting a pickup in global trade.

HI-Quality Company News
A summary of important earnings and/or capital allocation news announced during the past week from the high-quality companies held in most client portfolios. For new clients, these companies may become investment candidates as valuations appear attractive and cash is available:

Johnson & Johnson-JNJ will acquire all outstanding shares of Shockwave for $335.00 per share in cash, corresponding to an enterprise value of about $13.1 billion including cash acquired. Shockwave has transformed the treatment of complex calcified arterial disease through the pioneering development of intravascular lithotripsy. Shockwave is ultimately expected to become Johnson & Johnson MedTech's thirteenth priority platform, as defined by annual sales of at least $1 billion. Johnson & Johnson expects the transaction to be operationally accretive upon closing, but considering the impact of financing costs, is expected to dilute EPS by about $0.10 in 2024 and $0.17 in 2025. Johnson & Johnson expects to fund the transaction through a combination of cash on hand and debt. In addition**, Johnson & Johnson expects to maintain a strong balance sheet and to continue to support its stated capital allocation priorities of R&D investment, competitive dividends, value-creating acquisitions and strategic share repurchases.** The closing of the transaction is expected to occur by mid-year 2024. Joaquin Duato, Chairman and Chief Executive Officer of Johnson & Johnson, said, "With our focus on Innovative Medicine and MedTech, Johnson & Johnson has a long history of tackling cardiovascular disease – the leading cause of death globally. The acquisition of Shockwave and its leading IVL technology provides a unique opportunity to accelerate our impact in cardiovascular intervention and drive greater value for patients, shareholders and health systems."

Ulta Beauty-ULTA said during an investment conference that overall category growth was slowing more than expected. If the category slowdown continues, "we would expect our Q1 comp to be on the lower end of that first-half guide that we provided of the low single digit." However, **the company reaffirmed its guidance for fiscal 2025 (Jan), and sees EPS of $26.20-27.00 and revenues of $11.7-11.8 billion.**

The TJX Companies-TJX announced that its Board of Directors has raised the amount of its quarterly dividend by 13% from the last dividend paid. Ernie Herrman, Chief Executive Officer and President of The TJX Companies, Inc., stated, "I am pleased to announce that our Board of Directors has **approved a 13% increase in our quarterly dividend. This marks our 27th dividend increase over the last 28 years. Over this period, TJX's dividend has grown at a compound annual rate of 20%. In addition, we plan to continue our significant share buyback program, with approximately $2.0 to $2.5 billion of repurchases planned for Fiscal 2025. These actions underscore our confidence in our ability to continue to drive sales, increase profitability, and deliver strong cash flow, allowing us to simultaneously reinvest in the growth of the business and return significant value to our shareholders."**

Paychex-PAYX reported third quarter revenues increased 4% to $1.4 billion with net income and EPS each processing a 7% gain to $498.6 million and $1.38, respectively. Total revenue growth reflected a lower contribution from the Employee Retention Tax Credit (ERTC) service as that program winds down following the pandemic. The company was still able to expand its operating margin by 80 basis points to 45.1% during the quarter due to ongoing expense discipline during a period of moderating small business employment and wage growth due in part to a tight labor market for qualified workers and inflationary pressures. Paychex's rolling 12-month return on shareholders' equity was an impressive 47%. **The company's financial position and free cash flow generation remained strong with free cash flow increasing 31% fiscal year-to-date to $1.6 billion. During the first nine months, the company paid $963 million in dividends and repurchased $169 million of its shares outstanding. The company's consistent free cash flow generation supports its industry-leading dividend payout ratio with the dividend currently yielding approximately 3%. Paychex continues to see a steady macro environment with no signs of recession.** Given the curtailment of the ERTC program, Paychex lowered its revenue growth outlook for fiscal 2024 to a range of 5% to 6% versus its previous outlook for 6%-7% outlook. For fiscal 2025, the company provided a preliminary outlook for 5% revenue growth.

UPS-UPS announced the company has been awarded a significant air cargo contract by the United Stated Postal Service (USPS). This award is effective immediately and greatly expands the existing relationship between the two organizations. **Following a transition period, UPS will become the USPS's primary air cargo provider and move the majority of USPS air cargo in the US.**

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With the eclipse happening today, I decided to ask ChatGPT to tell me a story about how eclipses may impact the stock market:

"Eclipse of Fortunes"

"Once upon a time, in the bustling city of Wall Street, the stock market danced to its own rhythm. Traders, clad in tailored suits, huddled around glowing screens, their eyes reflecting the flickering numbers that determined fortunes.

Last week, the market had been a tempest. Bulls and bears clashed, their roars echoing through the marble corridors. The Dow Jones Industrial Average, that venerable old sage, teetered on the precipice of uncertainty. It was a time of wild speculation, where fortunes were made or shattered with each tick of the clock.

And then, as if scripted by the cosmos, an **eclipse** loomed. The much-anticipated event cast its shadow across the land, drawing curious gazes upward. Investors, their eyes shielded by ISO 12312-2 eclipse glasses, wondered: Would the heavens smile upon their portfolios?

Sam Stovall, the chief investment strategist for CFRA Research, was a man who knew the market's secrets. He'd seen bull markets rise like phoenixes and bear markets devour dreams. When asked about the eclipse, he leaned back in his leather chair, adjusting his tie, and shared his wisdom.

"Ah," he said, *"the Dow has a peculiar dance during total solar eclipse years. It's as if the sun and moon conspire to nudge the market. In 1954, the Dow soared like a comet—up 44%! Three other years boasted gains of 25% or more."*

But the stars were not always benevolent. The Great Depression had cast its own shadow. In 1930, the Dow stumbled, a wounded eagle, plummeting 33.8%. And in 1932, it wept, down 23.1%. Even the skyscrapers of New York City couldn't shield it from economic storms.

"Remember 1970?" Stovall mused. *"The 'Eclipse of the Century.' Millions watched as twilight draped the city. The Dow rose modestly—4.8% that year. And in 1979, when the eclipse graced the Pacific Northwest, it climbed another 4.2%."*

Yet, as the eclipse wove its cosmic magic, the Dow had its own spectacle. It flirted with 40,000, a daring trapeze act. The blue-chip index soared, dipped, and pirouetted. *"One, maybe two declines,"* Stovall predicted, *"but a double-digit year-over-year increase."*

And so, as the moon slid across the sun, traders glanced at their screens. The eclipse was a celestial wink—a reminder that fortunes, like shadows, shifted. Perhaps the market, too, had its lunar cycles, its hidden forces.

As the eclipse faded, leaving a trail of awe in its wake, the Dow closed its week. Workers received raises, economies hummed, and the world spun on.

And in the quiet of the night, traders whispered to the stars, *“What next, celestial market? What next?”*

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After that amusing AI story, my conclusion is that eclipses may result in the stock market rising significantly, declining significantly, or remaining relatively flat. As noted economist, John Kenneth Galbraith, said, “The only function of economic forecasting is to make astrology look respectable."

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot, CFA
President