



1-18-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 1-14-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	35,911.81	-0.9%	-1.2%
S&P 500	4,662.85	-0.3%	-2.2%
NASDAQ	14,893.75	-0.3%	-4.8%

Inflationary concerns continued to weigh on the stock market during the past week with the Dow dropping 0.9% and the S&P 500 and NASDAQ each declining 0.3%.

Economic Releases

A summary of economic releases during the past week which may impact the financial markets:

New unemployment claims rose to 230,000 for the week ended January 8 with continuing claims for the week ended January 2 declining to 1.559 million. Demand for workers remains strong.

On the inflation front, total CPI rose 0.5% month-over-month in December and was up 7.0% year-over-year. This represented the sharpest 12-month inflation increase in nearly 40 years led by high inflation for vehicles and shelter.

The December Producer Price Index showed that the index for final demand increased 0.2% month-over-month, with the year-over-year increase at a high 9.7% due to the adverse impact of the pandemic on supply chains amid strong demand for goods.

Total retail sales were down 1.9% month-over-month in December with the contraction at the fastest pace since last February due to broadly higher prices weighing down consumer spending. On a year-over-year basis, total retail sales were up 16.9%.

Total industrial production decreased 0.1% in December as the capacity utilization rate dipped to 76.5% reflecting a pullback in manufacturing production after two months of solid growth.

The preliminary January reading for the University of Michigan Index of Consumer Sentiment declined to 68.8 as inflation expectations are becoming more entrenched. The five-year inflation expectations rose to 3.1%, representing the first increase above the 3.0% mark since 2011.

HI-Quality Company News

A summary of important earnings and/or capital allocation news announced during the past couple of weeks 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:



Roche-RHHBY Diagnostic was awarded a \$340 million firm-fixed-price contract for COVID-19 rapid antigen tests. Work will be performed in Indianapolis with an estimated completion date of March 14, 2022.



Booking Holdings-BKNG announced that KAYAK for Business, KAYAK's free corporate travel solution, has integrated Southwest Airlines® into its platform making the process of booking a business trip and earning Southwest Rapid Rewards points easier. Through the integration, travelers and travel decision makers will be able to compare all available travel options in one place, making KAYAK for Business a one-stop-shop designed for small and medium sized businesses.



The Boeing Company has selected Collins Aerospace, a **Raytheon Technologies-RTX** business, to be the long-term provider of next-generation lavatories for the 737 family of aircraft.



Waymo Via, a business of **Alphabet-GOGL**, and J.B. Hunt Transport Services announced a long-term, strategic alliance that will advance innovative efforts to integrate commercial autonomous driving technology in transportation and logistics, with ultimate plans to complete fully autonomous transport in Texas in the next few years. Waymo has over a decade of experience in building autonomous driving technology, having driven over 20 million miles on public roads across 13+ U.S. states and 20 billion miles in simulation.



T. Rowe Price-TROW reported its assets under management as of 12/31/21 were \$1.69 trillion, representing a 14.8% increase for the year. This balance included \$47 billion in fee-basis assets from the acquisition of Oak Hill Advisors completed on 12/29/21.

As part of his confirmation hearings, Federal Reserve Chair, Jerome Powell, addressed inflation questions last week. Powell stated, "As we move through this year ... if things develop as expected, we'll be normalizing policy, meaning we're going to end our asset purchases in March, meaning we'll be raising rates over the course of the year. At some point perhaps later this year, we will start to allow the balance sheet to run off, and that's just the road to normalizing policy."

The Fed is expected to raise interest rates three or four times in 2022 in quarter percentage-point increments. Powell added, "If we see inflation persisting at high levels longer than expected, then if we have to raise interest more over time, we will. We will use our tools to get inflation back." With the 10-year U.S. Treasury interest rate relatively unchanged on the week despite the hot inflation headlines, the bond market appears to believe that inflation may be peaking. Inflation is expected to trend down in the second half of the year as snarled supply chains start to unravel and demand normalizes.

In a rising interest rate environment, our **HI**-quality companies tend to fare relatively well given their pricing power and moderate debt. Some firms actually benefit such as **Bank of Hawaii** which earns more net interest income and **Berkshire Hathaway**, **ADP** and **Paychex** which earn more interest on their substantial float balances. If you have any questions, please let us know.

Sincerely,
Ingrid R. Hendershot, CFA
President