9-27-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 9-24-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,798.00	+0.6%	+13.7%
S&P 500	4,455.48	+0.5%	+18.6%
NASDAQ	15,047.70	0.0%	+16.8%

Initial claims for the week ending September 18 increased by 16,000 to 351,000 while continuing claims increased by 131,000 to 2.845 million. Despite the jump in the latest claims figures, the trend is still tracking lower as the four-week moving average for both initial claims and continuing claims decreased from the prior week.

Total housing starts increased 3.9% month-over-month in August to a seasonally adjusted annual rate of 1.615 million while permits rose 6.0% to a seasonally adjusted annual rate of 1.728 million. The increase was driven almost entirely by multi-family units as single-family starts declined 2.8% month-over-month while permits for single units were up just 0.6%.

Existing home sales decreased 2.0% month-over-month in August to a seasonally adjusted annual rate of 5.88 million. Total sales in August were down 1.5% from a year ago. The supply of existing homes for sale is tight, particularly at more affordable price points. That is driving up the pace of price increases well beyond the pace of income growth, which is creating affordability pressures for prospective buyers and crimping overall sales activity. The median existing home price for all housing types increased 14.9% year-over-year to $356,700, representing the 114th consecutive month of year-over-year gains.

New home sales increased 1.5% month-over-month to a seasonally adjusted annual rate of 740,000. On a year-over-year basis, new home sales plunged 24.3%, driven by double-digit declines in all regions. New home sales momentum has been slowed by cost constraints that are making it less enticing for builders to build lower-priced homes and by affordability pressures that are making it more challenging for prospective buyers to buy higher-priced homes. The median sales price for new homes increased 20.0% year-over-year to $390,900 while the average sales price jumped 14.7% to $443,200.

During the past week, the stock market bounced higher amid high volatility with the Dow gaining 0.6%, the S&P 500 rising 0.5% and the NASDAQ remaining relatively unchanged. Mr. Market shrugged off concerns about China's Evergrande potential debt default at the beginning of the week and welcomed the Fed's view that the economy is making "substantial progress" in recovering from the COVID shock.

HI-Quality Company News

NIKE-NKE rang up a 16% increase in fiscal 2022 first quarter sales to $12.2 billion with net earnings sprinting ahead 23% to $1.9 billion and EPS jumping 22% to $1.16. Sales grew across all channels, led by NIKE Direct growth of 25%, thanks to the steady normalization of owned physical retail stores, which grew 24% and now exceed pre-pandemic levels. NIKE Brand Digital business continued strong growth, increasing by 25%, led by North America growth of 43%. Gross margin increased 170 basis points to 46.5%, led by margin expansion in the

NIKE Direct business, a higher mix of full-price sales (65% of total sales) and favorable changes in foreign currency exchange rates, partially offset by higher product costs primarily due to increased freight costs. Nike ended the quarter with $13.7 billion in cash and investments, up $4.2 billion from last year, due to strong free cash flow generation, $9.4 billion in long-term debt and $14.3 billion in shareholders' equity. Company leadership views NIKE's super strong balance sheet as a competitive advantage. During the first quarter, NIKE returned $1.2 billion to shareholders, including dividends of $435 million, up 13% from last year, and share repurchases of $742 million, reflecting 4.8 million shares retired as part of the four-year $15 billion share repurchase program approved by the Board in June 2018. As of August 31, 2021, a total of 54.8 million shares have been repurchased under the program for a total of $5.4 billion at an average cost per share of $98.54. NIKE continues to have a strong track record of investing to fuel growth and innovation while consistently increasing returns to shareholders, including 19 consecutive years of increasing dividend payouts. The pandemic, which depressed demand during the past 18 months, is now wreaking havoc on the supply chain. As a result, second quarter sales are expected to increase in the mid-single-digits versus low double-digits previously expected. Factories in Indonesia and in Vietnam abruptly shut down in July due to COVID outbreaks. While plants in Indonesia have reopened, plants in Vietnam, where 50% of NIKE's footwear and 30% of its apparel is manufactured, are not expected to open until October. This 10-week loss of production that will reduce inventories during the crucial holiday season comes on the heels of a doubling of in-transit freight times from 40 days pre-pandemic to 80 days during the current quarter. Container and labor shortages along with congested port and rail hubs contributed to increased transit times of inventory that will be out-of-season when delivered. Global supply chain challenges, expected to weigh on NIKE's sales through the end of fiscal 2022, will gradually improve in fiscal 2023. During the earnings conference call, management stated that like a winning sports team, NIKE has emerged stronger after agilely managing through the first 18 months of the pandemic and expressed confidence it will emerge stronger after navigating through the next 18 months of the pandemic.

accenture
High performance. Delivered.

Accenture-ACN reported fourth quarter revenues increased 24% to $13.4 billion with net income increasing 10% to $1.44 billion and EPS up 11% to $2.20, respectively. For the full fiscal 2021 year, revenues rose 14% to a record $50.5 billion with net income increasing 15% to $5.99 billion and EPS up 16% to $9.16. Full year results included $.36 per share of gains on investments. Excluding these gains, adjusted EPS increased 18% for the year to $8.80. Return on shareholders' equity was a strong 30% in fiscal 2021. Free cash flow increased 11% during the year to $8.4 billion thanks to stellar billing and collection of receivables. During the year, new bookings reached a record $59.3 billion due to strong demand for the company's digital, cloud and security services. During the year, the company returned $5.94 billion to shareholders through $2.24 billion in dividends and $3.70 billion in share repurchases and ended the year with more than $8.1 billion in cash and investments on its strong balance sheet. For fiscal 2022, Accenture expects revenue growth of 12% to 15% in local currency with EPS expected in the range of $9.90 to $10.18, reflecting an 8% to 11% increase from adjusted fiscal 2021 EPS. Free cash flow is expected in the range of $7.5 billion to $8.0 billion for fiscal 2022 with the company planning to return at least $6.3 billion to shareholders through dividends and share repurchases.

Walgreens
at the corner of happy & healthy

Walgreens Boots Alliance-WBA is making a $970 million majority investment in Shields, an industry leader in integrated, health system-owned specialty pharmacy care. WBA's investment signifies another step the company is taking to accelerate innovative healthcare models for future growth, providing a platform to further develop health system partnerships and coordinate care for those with complex, chronic conditions. The new investment gives WBA approximately 71 percent ownership of Shields, with an option to acquire the remaining equity interests in the future. The transaction is expected to close by the end of the second quarter of WBA's 2022 fiscal year. Shields' financials will be consolidated by WBA with the transaction projected to be modestly accretive in its first full year after completion.

F5-FFIV announced a definitive agreement to acquire privately held Threat Stack, a leader in cloud security and workload protection for $68 million in cash. The transaction is expected to be immaterial to F5's financial results, adding approximately $15 million in revenue for fiscal year 2022 with no change to F5's previously stated operating margin targets for fiscal year 2022.

*****

Interest rates rose last week to 1.46% on the 10-year U.S. Treasury Note following the report from the Federal Open Market Committee that the Fed may begin tapering or slowing the Fed's large-scale $120 billion monthly asset purchases beginning as early as November. This snippet from John Authers at Bloomberg signals that Mr. Market, however, may not worry about rising rates until at least the second half of next year:

The Tapir Cometh, by John Authers

The monetary menagerie on days like this can get confusing. Beyond hawks (who want tighter money) and doves (who want easier money), there is also the retinue of bulls and bears, all braced for potential black swans, such as viruses. But it looks as though the world is finally ready for a new and apparently much less menacing animal: the tapir.

The bottom line from Wednesday's meeting of the Federal Open Market Committee, as communicated by Chairman Jerome Powell, is that the taper will arrive in November, and continue munching away at the Fed's monthly purchases of assets until they are all gone, in June of next year. At that point, the tapir can retire not very graciously into the sunset, its proboscis swaying gently in the breeze. Everyone can then start worrying about rates.

*****

There will be no Weekly Update next week as we work on preparing your quarter end reports. If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

President