12-12-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 12-9-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	33,476.46	-2.8%	-7.9%
S&P 500	3,934.78	-3.4%	-17.4%
NASDAQ	11,004.62	-4.0%	-29.7%

The Grinch showed up amid renewed recession rumblings with the Dow dropping 2.8%, the S&P 500 declining 3.4% and NASDAQ falling 4.0% during the past week.

Economic Releases

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

On the employment front, first-time claims for state unemployment benefits—a proxy for layoffs—increased by 4,000 to 230,000 for the week ended December 3 while continuing claims—a proxy for the number of people with ongoing unemployment benefits—rose to 1.671 million, up 62,000 from the previous week. Continuing jobless claims hit their highest level since February 2022, suggesting that it is becoming more difficult to find a job as employers are more cautious with their hiring plans.

Nonfarm business sector labor productivity increased 0.8% in Q3 but decreased 1.3% from the same quarter a year ago. In Q1 and Q2, productivity declined 5.9% and 4.1%, respectively. Unit labor costs were up 2.4% in Q3 versus the preliminary estimate of 3.5%. In Q1 and Q2, unit labor costs were up 8.5% and 6.7%, respectively. Softer unit labor costs support the peak inflation view.

The Producer Price Index for final demand increased 0.3% month-over-month in November, which was higher than expectations. The index for final demand, less foods and energy, increased 0.4% month-over-month. On a year-over-year basis, the index for final demand was up 7.4% versus 8.1% in October, and the index for final demand, less foods and energy, was up 6.2% versus 6.8% in October. It is good to see the year-over-year change in PPI and core PPI moving lower, although the current levels are still too high.

The trade deficit widened in October to $78.2 billion from $74.1 billion in September. That was the result of exports being $1.9 billion less than September exports and imports being $2.2 billion more than September imports. The increase in imports points to a relatively strong U.S. economy in October versus other economies.

Consumer credit increased by $27.0 billion in October from $25.9 billion in September. Consumer credit continued to expand at a robust pace in October, despite a rising interest rate environment. However, a slowdown in the pace of expansion is expected as higher interest rates, tighter underwriting standards and some weakening in the labor market reduces loan demand/lending activity.

The *ISM* Non-Manufacturing Index for November increased to 56.5% from 54.4% in October as the services sector strengthened. The November reading marks the 30th straight month of growth for the services sector. Business activity in the services sector comprises the largest part of U.S. economic activity.

The preliminary December University of Michigan Index of Consumer Sentiment improved to 59.1 versus the final reading of 56.8 for November. In the same period a year ago, the index stood at 70.6. Sentiment improved in thanks to rising stock prices and falling gas prices. Year-ahead inflation expectations fell to 4.6% from 4.9%, reaching their lowest level in 15 months. Long run inflation expectations remained unchanged at 3.0%.

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:

Brown-Forman-BFB reported second quarter net sales increased 10% (+16% on an organic basis) to $1.1 billion with net income and EPS both down 4% to $227 million and $0.47, respectively. The United States and developed international markets grew organic sales 11% and 14%, respectively, while organic sales in emerging markets jumped 27%. During the first half of fiscal 2023, Jack Daniel's family of brands sales increased 9% (+17% organic) fueled by Jack Daniel's Tennessee Whiskey, which experienced broad-based growth across all geographic clusters and the Travel retail channel. Premium bourbons, propelled by Woodford Reserve and Old Forester, delivered 39% sales growth (+40% organic) driven by higher volumes in the United States, which included an estimated net increase in distributor inventories as glass supply constraints eased. The tequila portfolio grew net sales 10% (+11% organic) led by Herradura and el Jimador. Ready-to-Drinks delivered double-digit reported net sales growth driven by consumer preference for convenience and flavor. Jack Daniel's RTDs/Ready-to-Pours (RTPs) grew reported net sales 9% (+15% organic) led by Australia and Germany and New Mix delivered 48% reported net sales growth (+46% organic) fueled by Mexico with market share gains in the RTD category. Reported advertising expense grew 19% driven by increased investment in the United States to support Jack Daniel's Tennessee Whiskey, Herradura, the launch of the Jack Daniel's Bonded series, and Woodford Reserve. During the first half of the year, free cash flow decreased 16% to $255 million with the company paying $180 million in dividends during the same period. **Despite foreign exchange and inflationary headwinds, Brown-Forman is on track to deliver another solid year of growth in fiscal 2023, reflected in the Board's recent approval of a 9% increase in the quarterly cash dividend to $.2055 per share. Brown-Forman has paid regular quarterly cash dividends for 79 consecutive years and has increased the regular cash dividend for 39 consecutive years.** The company raised their fiscal 2023 outlook, as they anticipate stronger growth despite global macroeconomic and geopolitical uncertainties. Brown-Forman now expects organic net sales and organic operating income growth in the high-single digit range compared to mid-single digit growth in previous guidance.

Mastercard-MA announced that its Board of Directors has declared a quarterly cash dividend of 57 cents per share, a 16 percent increase over the previous dividend of 49 cents per share. The Board of Directors also approved a new share repurchase program, authorizing the company to repurchase up to $9 billion of its Class A common stock.

Stryker-SYK announced that its Board of Directors has declared a quarterly dividend of $0.75 per share payable January 31, 2023, to shareholders of record at the close of business on December 30, 2022, representing an

increase of 7.9% versus the prior year and previous quarter. **“We remain confident in our growth outlook, despite the challenging macroeconomic environment”, said Kevin Lobo, Chair & CEO. “Consequently, we are proceeding with a steady increase in our dividend to $0.75 per share, reflecting 7.9% growth."**

*****

Dividend increases continued among our ***HI-***quality companies with a 9% boost by **Brown-Forman**, a 16% charge higher by **Mastercard** and an 8% increase by **Stryker**. The good news for investors is that we suspect all these increases will be higher than the latest inflation reading. This week the CPI data will be released on Tuesday. If it follows the PPI data, we should see a moderation in inflation albeit with inflation at still high levels. On Wednesday, the Federal Reserve will have its final meeting of the year and is expected to increase the federal funds rate 0.5%, following four consecutive 0.75% increases, which will bring the target range to 4.25% to 4.5%. Mr. Market currently is expecting peak fed fund rates to top 5% by the middle of next year. This points to just a few more belt tightenings by the Fed in its fight against inflation although inflation will likely remain higher for longer than most expected.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot, CFA
President