



7-18-22

## WEEKLY UPDATE

### *Market Performance*

MARKET INDEX	CLOSE 7-15-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
<b>DJIA</b>	31,288.26	-0.2%	-13.9%
<b>S&amp;P 500</b>	3,863.16	-0.9%	-18.9%
<b>NASDAQ</b>	11,452.42	-1.6%	-26.8%

Last week, the stock market declined, despite a strong stock market rally on Friday, with the Dow dipping 0.2%, the S&P 500 slipping 0.9% and NASDAQ dropping 1.6% as inflation accelerated.

### *Economic Releases*

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

The weekly initial unemployment claims increased by 9,000 to 244,000 for the week ending July 9 while continuing claims for the week ending July 2 decreased by 41,000 to 1.331 million. While still low, initial claims have steadily been inching higher since they reached a low of 167,000 at the end of March and are now at their highest level since early February.

Total CPI increased 1.3% month-over-month in June after increasing 1.0% in May. On a year-over-year basis, total CPI accelerated to 9.1%, representing the fastest rate of increase in more than four decades. Inflation pressures remained broad-based led by energy, food, shelter and used autos and trucks. The June inflation reading will likely lead the Fed to raise interest rates at least 0.75 points later this month with the goal of restoring price stability in the economy.

The Producer Price Index (PPI) for final demand increased 1.1% month-over-month in June. On a year-over-year basis, the PPI for final demand surged to 11.3% versus 10.9% in May. Inflationary pressures were most pronounced in the manufacturing sector due to higher energy prices, but the services sector also saw higher prices.

Total June retail sales increased a higher than expected 1.0% month-over-month, reflecting 3.6% higher gas station sales and 1% higher consumer spending at food services and drinking places.

Total industrial production decreased 0.2% month-over-month in June as the capacity utilization rate decreased to 80.0%. Total production was weighed down by the second consecutive month of falling manufacturing output, especially for motor vehicle assemblies. Total industrial production was up 4.2% year-over-year.

The preliminary reading of the University of Michigan Index of Consumer Sentiment for July rose to 51.1 from June's final reading of 50.0. One year ago, the July reading was at 81.2. The slight improvement in sentiment was due to a dip in inflation expectations after the recent pullback in energy prices. Five-year inflation expectations dropped to 2.8% from 3.1%.

## **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:



**UnitedHealth Group-UNH reported second quarter revenues rose a healthy 13% to \$80.3 billion with net income and EPS each up nearly 20% to \$5.2 billion and \$5.34, respectively.** Well-balanced revenue growth during the quarter included double-digit growth at both Optum and UnitedHealthcare. Total people served by UnitedHealthcare has grown by over 600,000 in 2022, including 280,000 in the second quarter. Optum Health revenue per consumer served increased 30%, driven by growth in the number of people served under value-based care arrangements and continued expansion of the care services offered. In addition, Optum Insight's revenue backlog increased by \$2.3 billion and Optum Rx's revenue grew 10% during the quarter. Cash flows from operations during the second quarter were \$6.9 billion- or 1.3-times net income. Free cash flow increased 5% during the first half of the year to \$10.9 billion with the company returning \$7.9 billion to shareholders through dividends of \$2.9 billion and share repurchases of \$5 billion. **UnitedHealth Group increased their dividend by 14% in June 2022.** Return on equity during the second quarter of 27.9% reflected the company's sustained earnings growth profile and efficient capital structure. The company ended the quarter with \$70.4 billion in cash and investments, \$45.7 billion in long-term debt and \$76.2 billion in shareholders' equity on its healthy balance sheet. **Based upon first half performance and growth expectations, management raised its full year net earnings outlook to \$20.45 to \$20.95.**



**Fastenal-FAST reported second quarter sales increased 18% to \$1.7 billion with net income and EPS up 20% to \$287.1 million and \$0.50, respectively.** The overall impact of product pricing on net sales in the second quarter was 660 to 690 basis points compared to the second quarter of 2021, reflecting actions taken over the last 12 months to mitigate the impact of marketplace inflation for products, particularly fasteners and transportation services. These efforts have allowed the company to sustain gross margin despite still-elevated material and transportation costs. Fastenal did not take any broad price increases in the second quarter but benefited from carryover from actions taken in the first quarter. Daily sales to manufacturing customers increased 23.1% and daily sales to non-residential construction customers increased 10.8% during the quarter. By segment, fasteners daily sales increased 21%, representing 34.6% of net sales during the quarter. Safety product daily sales increased 13.8% and represented 20.3% of net sales. Other products daily sales increased 17% representing 45.1% of sales during the quarter. Fastenal signed 102 new Onsite locations during the quarter, bringing the total to 1,501 active sites, up 13.5% from last year. This marks the first time that Fastenal has added over 100 Onsite locations in back-to-back quarters. Daily sales through Onsite locations increased more than 20%, primarily due to improved business activity from Onsite customers. Daily sales through Fastenal Managed Inventory (FMI) devices grew 36.8% for second-quarter 2022. Fastenal's digital footprint represents 47.9% of sales, an increase from 41.4% of sales last year. During the second quarter, free cash flow decreased 24% to \$104 million. Cash flow was impacted by higher working capital needs, which reflected significant product cost inflation and efforts to support customer growth. During the quarter, the company returned \$227.8 million to shareholders through dividend payments of \$178.5 million and share repurchases of \$49.3 million. The board declared a \$.31 dividend to be paid on August 24 and **authorized repurchases by the company of up to an additional 8 million shares of its common stock.** Fastenal ended the quarter with \$248 million in cash, \$310 million in long-term debt and \$3.2 billion in shareholders' equity on its sturdy balance sheet. Looking ahead to the remainder of the year, Fastenal will continue to take actions aimed at mitigating the impact of product and transportation cost inflation should the need arise. Despite still tight and long supply chains, Fastenal's ability to source products is less chaotic. **The company is still seeing healthy demand and strong customer backlogs, making them confident that the future looks bright.** Fastenal is seeing the pandemic enter the endemic stage as severe travel curtailments have lifted. While hiring remains challenging, trends in applications

received have improved. Fastenal continues to expect capital spending in the range of \$180 million to \$200 million in 2022.



**PepsiCo-PEP** reported second quarter sales bubbled up 5% to \$20.2 billion with net income and EPS down 39% to \$1.4 billion and \$1.03, respectively. The decline in earnings reflects the unfavorable impact of \$1.4 billion in non-cash impairment charges related to the Russia-Ukraine conflict, the decision to sell or discontinue certain non-strategic brands in the Latin America division, and the decision to terminate agreement to distribute Bang Energy drinks. **Organic revenues increased 13% and core constant currency EPS was up 10%**. During the quarter, PepsiCo's North American Frito-Lay and Quaker Foods businesses both delivered double-digit revenue growth as more consumers are eating at home. PepsiCo's North American beverage business declined 1% but delivered 9% organic revenue growth as category growth and consumer demand remain robust. PepsiCo's International snack business accelerated 20% organically and the International beverage business delivered 7% organic growth. **PepsiCo increased year-over-year prices on average by 12% to help offset the rising costs of trucking, packaging and agricultural commodities**. Even with the rising prices, consumers are continuing to buy affordable treats like soda and chips, reflecting **strong brand loyalty** to PepsiCo products. During the first half of 2022, PepsiCo generated \$382 million in free cash flow with the company returning \$3.7 billion to shareholders through dividends of \$3 billion and share buybacks of \$700 million. PepsiCo ended the quarter with \$5.7 billion in cash and investments, \$33.2 billion in long-term debt and \$18.5 billion in shareholders' equity. **For the full 2022 year, PepsiCo now expects revenue growth of 10%, versus prior guidance of 8%, and constant currency EPS growth of 8%**. Core EPS is expected to be \$6.63 compared to \$6.26 in 2021. **PepsiCo expects to return \$7.7 billion to shareholders during 2022, mainly through dividend payments**.



**T. Rowe Price Group-TROW** reported preliminary month-end assets under management of \$1.31 trillion as of June 30, 2022. This represents a 22% decline since year end.



Confirming a slowdown in hiring, **Alphabet-GOOG** CEO, Sundar Pichai, said "The uncertain global economic outlook has been top of mind. Like all companies, we're not immune to economic headwinds. Because of the hiring progress achieved so far this year, we'll be slowing the pace of hiring for the rest of the year, while still supporting our most important opportunities. For the balance of 2022 and 2023, we'll focus our hiring on engineering, technical and other critical roles, and make sure the great talent we do hire is aligned with our long-term priorities." **Alphabet distributed its 20 for 1 stock split, and your shares and stock price were adjusted accordingly**.

## **BERKSHIRE HATHAWAY INC.**

**Berkshire Hathaway-BRKB** purchased another 4.3 million shares of Occidental Petroleum for about \$250 million, giving it a 19.2% stake in the oil company. Berkshire now owns 179.4 million Occidental common shares worth about \$10.4 billion.

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Second quarter earnings season is upon us. Last week, we received good news from our first **HI**-quality companies to report financial results. **Fastenal, PepsiCo and UnitedHealth** all reported double-digit organic sales and EPS growth which represented strong results from the industrial, consumer and healthcare sectors. While high inflation and recession concerns abound, UnitedHealth and PepsiCo raised their financial outlooks for the balance of the year. Returning value to shareholders, UnitedHealth increased its dividend 14%, Fastenal announced a new eight million share repurchase program and PepsiCo reaffirmed its plan to pay about \$7.7 billion in dividends to shareholders in 2022.

Overall, dividend payouts set another record in the second quarter, which should be a reassuring sign to investors despite all the stock market volatility. The companies in the S&P 500 paid out a record \$140.6 billion in dividends in the second quarter, according to S&P Dow Jones Indices, which is a 14% increase over the same quarter last year. Dividends are projected to set new records for the full year, which is a signal that businesses remain confident about their business outlook despite challenging macroeconomic factors. Companies are also using cash to repurchase shares at record levels, with second-quarter buybacks expected to set a fresh high of \$286.4 billion, according to S&P Dow Jones Indices.

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You may have received recent notices of proposed class action legal settlements related to AbbVie, TD Ameritrade and/or Fluor. As part of our service to you, we review any proposed legal settlements related to stocks purchased for your accounts either currently or in the past. If you held the stock during the period of the class action and the proposed settlement is expected to be \$100 or more, we will prepare the proof of claim for you. Accordingly, you do not need to take any action and may discard any notices you received. If you have any questions, please let us know.

Sincerely,

*Ingrid R. Hendershot, CFA*  
President