



11-21-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 11-18-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	33,745.69	0.0%	-7.1%
S&P 500	3,965.34	-0.7%	-16.8%
NASDAQ	11,146.06	-1.6%	-28.8%

U.S. stocks posted mixed results in the past week with the Dow flat, the S&P 500 slipping 0.7% and NASDAQ dropping 1.6% as central bankers indicated interest rates could stay higher for longer to combat inflation.

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—decreased by 4,000 to 222,000 for the week ended November 12 while continuing claims—a proxy for the number of people with ongoing unemployment benefits—rose to 1.507 million, up 13,000 from the previous week.

The Producer Price Index for final demand increased 0.2% month-over-month in October. Excluding food and energy, the Producer Price Index for final demand was unchanged. The monthly changes left the Producer Price Index for final demand up 8.0% year-over-year versus 8.4% in September, and the Producer Price Index for final demand, excluding food and energy, up 6.7% year-over-year, versus 7.1% in September. The lower trend in PPI may lead the Fed to take a less aggressive rate-hike approach going forward.

Total retail sales increased 1.3% month-over-month in October. Consumer spending continues to hold up well, supported by continued low levels of unemployment.

Total industrial production decreased 0.1% month-over-month in October. The capacity utilization rate dropped to 79.9% from 80.1% in September. Industrial output has declined in four of the last six months.

Housing starts decreased 4.2% month-over-month in October to a seasonally adjusted annual rate of 1.425 million. Building permits dropped 2.4% month-over-month to a seasonally adjusted annual rate of 1.526 million. There was no growth in single-unit starts in any region nor any growth in permits (a leading indicator) in any region for single-unit dwellings.

Existing home sales decreased 5.9% month-over-month in October to a seasonally adjusted annual rate of 4.43 million. That is the ninth straight month that existing home sales have fallen, and it is the weakest pace of sales since late 2011, excluding the 2020 pandemic period. Total sales in October were down 28.4% from a year ago. Higher mortgage rates are adversely impacting existing home sales, having created affordability pressures for prospective buyers and deferred listing decisions for potential sellers who see an expensive repurchase proposition.

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:



Ross Stores-ROST rang up \$4.57 billion in third quarter sales, even with last year, with net earnings off 11.2% to \$342 million and EPS down 8.3% to \$1.00. **Comparable store sales, which improved steadily during the quarter,** declined 3% on top of a robust 14% gain during the same period last year. Operating margin during the quarter was 9.8% compared to 11.4% last year, reflecting the decline in comparable store sales as well as pressure from higher markdowns and unfavorable timing of packaway-related costs. During the quarter, the company added 28 new Ross Stores and 12 new dd's DISCOUNTS locations and expects to end 2022 with 1,693 Ross and 322 dd's DISCOUNTS locations. During the first nine months of the year, Ross Stores generated \$54.8 million in free cash flow with the **company returning \$1.043 billion to shareholders through dividends of \$324.6 million and share repurchases of \$718.7 million** including \$244 million repurchased during the third quarter at an average cost per share of \$87.14. The company remains on track to buy back a total of \$950 million in 2022 under its two-year \$1.9 billion repurchase program that extends through 2023. Ross Stores ended the quarter with \$3.9 billion in cash, \$2.6 billion in long-term debt and \$4.1 billion in shareholders' equity on its dressy balance sheet. Looking ahead, management expects a very promotional holiday selling season with ongoing inflationary headwinds to pressure its low-to-moderate income customers. However, **given favorable sales and earnings comparisons in the fourth quarter, third quarter sales momentum and improved holiday assortments, it raised guidance.** Fourth quarter same store sales are now expected to be flat to down 2% on top of a 9% gain in the prior year, with earnings per share forecasted in the range of \$1.13 to \$1.26. Earnings per share for fiscal 2022 are now projected to be in the range of \$4.21 to \$4.34 versus \$4.87 last year on flat to up 3% sales growth. During the conference call, Barbara Rentler, CEO, concluded, "There remains a high level of uncertainty in today's macroeconomic and geopolitical environment that continues to negatively impact consumer sentiment and demand. However, we remain confident in the off-price business model, which offers both value and convenience. Given consumers' heightened focus on both of these attributes, it should bode well for our ability to expand our market share and profitability in the future."



TJX Companies-TJX reported sales declined 2.9% to \$12.2 billion with net earnings increasing 3.9% to \$1.062 billion and EPS up 8.3% to \$0.91. U.S. comp store sales declined 2% compared to a 16% increase last year. By division, domestic Marmaxx sales increased 3% to \$7.46 billion despite lapping 11% growth last year. Marmaxx's third quarter sales growth was driven by apparel sales, signaling an **increase in the company's market share.** HomeGoods sales declined 14% to \$1.95 billion as consumer spending shifted in the pandemic's aftermath. TJX Canada sales dipped 1% to \$1.3 billion and international sales declined 16% to \$1.48 billion on foreign currency headwinds. Inventories jumped 26% to \$8.3 billion, higher than expected due to early receipt of merchandise as the supply chain continued to improve. Operating margin improved 20 basis points to 11.2% due to the timing of expenses, most of which will reverse during the fourth quarter. During the first nine months, TJX generated \$1.06 billion in operating cash flow with **the company returning \$2.8 billion to shareholders through share**

repurchases of \$1.8 billion at an average cost per share of \$61.86 and dividends of \$1 billion. TJX ended the quarter with \$3.4 billion in cash, \$2.9 billion in long-term debt and \$5.7 billion in shareholders' equity on its dressy balance sheet. Management believes the decline in same store sales will reverse during the holiday season with same store sales expected to be flat to up 1% during the fourth quarter. For the full year, EPS are expected in the \$2.93 to \$2.97 range, up from prior guidance of \$2.87 to \$2.95. Chief Executive Officer and President, Ernie Herman stated, "Across our geographies, our values and exciting, treasure-hunt shopping experience continued to resonate with consumers throughout the quarter. Looking forward, while not immune to macro factors, we are convinced that our **flexible business model and value proposition will continue to be tremendous advantages, as they have been for more than four decades and through many kinds of retail and economic environments.**"



According to Mastercard SpendingPulse™, U.S. retail sales excluding automotive is expected to grow +15% on Black Friday compared to last year. Mastercard SpendingPulse measures in-store and online retail sales across all forms of payment and is not adjusted for inflation. This Black Friday, Department Store sales are anticipated to be up nearly +25% year-over-year as consumers shop online and in-store at these one-stop shops for all the gifts on their holiday shopping list. **Restaurants are expected to experience +35% year-over-year growth on Black Friday** as consumers prioritize experiences and dining out with friends and family. Travel companies are also getting in on the promotional holiday. Separate from total retail sales, **Airlines and Lodging are expected to experience double-digit growth on Black Friday** as consumers plan their next getaway. As anticipated, early holiday promotions drove consumers online and into stores. According to Mastercard SpendingPulse, October U.S. retail sales excluding automotive increased 9.5% year over year and 23.6% compared to October 2019. E-commerce sales in October grew 12.7% year over year. Experiential sectors including Restaurants, Airlines and Lodging all saw double-digit growth compared to both 2021 and 2019. "In October we saw **the strength in the labor market continue to support consumer purchasing power,**" said Michelle Meyer, U.S. Chief Economist, Mastercard Economics Institute. "Coupled with heavy online promotions, consumers got a head start on their holiday shopping, fueling another strong month of retail sales."



Cisco Systems-CSCO reported fiscal first quarter revenues increased 6% to a record \$13.6 billion with net income decreasing 10% to \$2.7 billion and EPS down 7% to \$.65. By segment, product revenue was up 11% and service revenue was flat. Total annualized recurring revenue (ARR) increased 7% to \$23.2 billion and product ARR was up 12% year-over-year. Remaining performance obligations (RPO) increased 3% to \$30.9 billion and product RPO was up 5% year-over-year. **Free cash flow increased 15% to \$3.8 billion during the first quarter with the company paying \$1.6 billion in dividends and repurchasing \$556 million of its common stock during the quarter at an average price of \$43.76 per share.** Cisco has \$14.7 billion remaining authorized for future share repurchases. Cisco maintains a strong balance sheet and ended the quarter with \$19.8 billion in cash and investments, \$7.6 billion in long-term debt and \$40.3 billion in shareholders' equity. Given the strong first quarter results, a significant backlog, strong RPO and **easing supply constraints, management raised guidance for fiscal 2023.** Management expects second quarter revenue growth of 4.5% to 6.5% and EPS to be in the range of \$.59 to \$.64. For the full fiscal year, Cisco now expects revenue growth of 4.5% to 6.5% and EPS to be in the range of \$2.63 to \$2.76.



BROWN-FORMAN

Brown-Forman-BFB announced that its Board of Directors **approved an increase of 9% to the quarterly cash dividend** from \$0.1885 per share to \$0.2055 per share on its Class A and Class B Common Stock. As a result, the indicated annual cash dividend will rise from \$0.7540 per share to \$0.8220 per share. The dividend is payable on January 3, 2023, to stockholders of record on December 2, 2022. **Brown-Forman**, a member of the prestigious S&P 500 Dividend Aristocrats index, **has paid regular quarterly cash dividends for 79 years and has increased the cash dividend for 39 consecutive years.**



NIKE-NKE announced that its Board of Directors **approved an 11% increase in its quarterly cash dividend to \$0.34 per share, marking the company's 21st consecutive year of increasing dividend payouts.**

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway-BRKB bought **\$9 billion of stocks during the third quarter.** Warren Buffett added to his large Chevron and Occidental Petroleum positions, while Berkshire established new positions in Taiwan Semiconductor, Louisiana-Pacific and Jeffries Financial Group. He also sold about \$5.3 billion of stocks including U.S. Bancorp, Bank of New York Mellon and Store Capital.

The strength in the labor market continues to support consumer purchasing power as demonstrated by the financial results and outlooks provided by **The TJX Companies** and **Ross Stores** this past week. **Mastercard** expects robust shopping results on Black Friday which should carry throughout the holiday season. Meanwhile, our **HI-quality** companies continue to reward us with growing dividend payments and substantial share repurchases which **TJX, Ross Stores** and **Cisco Systems** reported this past week. In addition, **Brown-Forman** announced a 9% increase in its dividend, marking the 39th consecutive year of dividend increases, while **Nike** approved an 11% increase in its dividend, extending its track record of dividend hikes to 21 consecutive years.

We have much to be thankful for from our high-quality businesses to the trust and confidence we receive from all of you. Everyone at Hendershot Investments wishes you a Happy Thanksgiving filled with family, friends, fun and plenty of pumpkin pie!

Sincerely,

Ingrid R. Hendershot, CFA

President

You may receive paperwork regarding a **proposed litigation settlement** regarding **Oracle for shares purchased between May 10, 2017 and June 20, 2018.** As always, we will review your account to determine if you are a member of the class and entitled to part of the settlement. If so, we will file the claim on your behalf. You may, therefore, disregard any paperwork you receive. If you have any questions, please let us know.