2-16-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 2-12-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	31,458.40	+1.0%	+2.8%
S&P 500	3,934.83	+1.2%	+4.8%
NASDAQ	14,095.47	+1.7%	+9.4%

New weekly unemployment claims pulled back slightly to 793,000 but remained elevated due to the pandemic. Continuing claims for the week ended January 30 were 4.545 million. New jobless claims have been tracking the decline in COVID-19 cases which have been retreating after the holiday spike. With the recently boosted weekly supply of COVID vaccines being sent to states up 28% to 11 million, there is hope for faster economic reopenings and rehirings to bring unemployment down.

U.S. consumer prices rose moderately in January with the consumer price index up 0.3% for the month and up 1.4% for the last 12 months as underlying inflation remained benign due to the pandemic. This will keep the Federal Reserve on the sidelines in terms of raising interest rates anytime soon.

During the past week, the stock market rose to record levels fueled by hopes of a stimulus package and the increased rollout of more vaccines with the Dow gaining 1.0%, the S&P 500 rising 1.2% and the NASDAQ jumping 1.7%.

HI-Quality Company News

Hormel Foods-HRL announced that it has entered into a definitive agreement to acquire the *Planters®* snack nut portfolio from the Kraft Heinz Company. The proposed transaction is expected to close in the second quarter of calendar 2021. The acquisition includes the *Planters®*, *NUT-rition®*, *Planters®* Cheez Balls and *Corn Nuts®* brands. Hormel Foods will acquire the business for $3.35 billion in cash in a transaction that provides a tax benefit valued at approximately $560 million, equating to an effective purchase price of $2.79 billion. The *Planters®* snack nut portfolio net sales were approximately $1 billion in calendar year 2020 and are expected to grow at the company's long-term organic growth target. Operating margins are expected to be accretive to the Grocery Products business in 2022 and enhance margins and cash flows for the total company. Hormel Foods expects to attain synergies of approximately $50-60 million to be realized by 2024. "The acquisition of the *Planters®* branded business further demonstrates our disciplined financial approach to M&A," said Jim Sheehan, executive vice president and chief financial officer of Hormel Foods. "We expect this acquisition will responsibly leverage our balance sheet and will not compromise our disciplined capital allocation policy, especially our commitment to dividend growth." Hormel has increased its dividend for 55 consecutive years.

PepsiCo-PEP announced fourth quarter revenues popped 9% higher to $22.5 billion with net income up 5% to $1.8 billion and EPS up 6% to $1.33. PepsiCo ended the year on a strong note with the global beverage business having accelerated while the global snacks and food business remained resilient. For the full year 2020, revenues rose 5% to $70.4 billion with net income down 3% to $7.1 billion and EPS down 2% to $5.12 reflecting the increased COVID-19 related costs. Return on shareholders' equity in 2020 expanded to a tasty 52.9%. Free cash flow increased 18% to $6.4 billion during the year with the company paying $5.5 billion in dividends and repurchasing $2 billion of its common stock. PepsiCo announced a 5% increase in the dividend payment to an annualized $4.30 per share, which represents the 49th consecutive year of dividend increases. The company is not planning any large merger and acquisition activity or significant share repurchases in 2021. For 2021, PepsiCo expects a mid-single digit increase in organic revenue and a high-single digit increase in core constant currency EPS. Management assumes that vaccination efforts will accelerate during the year leading to gradual improvement in consumer mobility. At the same time, PepsiCo expects to sustain greater e-commerce activity due to continued remote work arrangements.

T. Rowe Price Group-TROW announced that its Board of Directors has declared a quarterly dividend of $1.08 per share payable March 30, 2021, to stockholders of record as of the close of business on March 16, 2021. The quarterly dividend rate represents a 20% increase over the previous quarterly dividend rate of $0.90 per share. This will mark the 35th consecutive year since the firm's initial public offering that the company will have increased its regular annual dividend.

In other news, T. Rowe Price reported preliminary month-end assets under management of $1.46 trillion as of January 31, 2021, which were relatively flat with year end.

Cisco Systems-CSCO reported second quarter revenues were relatively flat at $12 billion with net income and EPS each down 12% to $2.5 billion and $.60, respectively. These results reflect continued weakness in the enterprise (large company) segment as the pandemic continues to impact operations. Product revenue was down 1%, led by 10% growth in security products, with Service revenue up 2% during the quarter. Cisco continues to make progress on transforming to more software and subscription with 76% of software revenue sold as a subscription in the quarter. Revenue by geographic region was led by 2% growth in Europe and the Middle East. Free cash flow declined 4% during the first half of the year to $6.7 billion with the company paying $3 billion in dividends and repurchasing $1.6 billion of its common stock, including 19 million shares repurchased in the second quarter at an average price of $42.82 per share. Cisco also announced a 3% increase in its dividend, marking the 10th consecutive year of dividend increases. This reflects management's confidence in future growth and the company's financial strength with more than $30 billion in cash and investments on its quarter end balance sheet with $9.6 billion in long-term debt and $39.1 billion in shareholders' equity. Cisco expects to close its acquisition of Acacia Communications for $4.5 billion in cash in the third quarter. Cisco is seeing encouraging signs of strength across its business segments with its technology expected to be a powerful engine for economic recovery and growth. For the third quarter of fiscal 2021, management expects revenue growth of 3.5% to 5.5% with EPS expected in the range of $.64 to $.69.

Regeneron Pharmaceuticals-REGN and Sanofi announced that the U.S. Food and Drug Administration (FDA) approved the PD-1 inhibitor Libtayo® as the first immunotherapy treatment indicated for patients with advanced basal cell carcinoma (BCC) and accelerated approval in metastatic BCC. "With today's approval, Libtayo is now approved for both advanced cutaneous squamous cell and basal cell carcinomas, building a strong foundation in dermato-oncology," said Israel Lowy, M.D., Ph.D., Senior Vice President, Translational and Clinical Sciences, Oncology, at Regeneron. "Beyond skin cancers, we also continue to investigate the potential of Libtayo in other difficult-to-treat cancers, starting with non-small cell lung cancer where an FDA decision is expected by the end of February."

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This past week demonstrated the strong cash flows our ***HI***-quality businesses generate which enables the firms to increase their dividends on a long-term, sustainable basis. Despite recessions, wars, bear markets and pandemics, these companies have provided shareholders with steadily growing dividend income streams over the decades. Hormel Foods has increased its dividend for 55 consecutive years with the dividend yielding a meaty 2% in a zero-interest rate world. PepsiCo's dividend has popped higher for 49 consecutive years with the dividend yielding a tasty 3.2%. T. Rowe Price has increased its dividend for 35 consecutive years with the dividend yielding a solid 2.7%. The "new" kid on the block, Cisco Systems, has steadily increased its dividend for the past decade with the dividend currently yielding a strong 3.1%. When stock markets become volatile, investors should ignore Mr. Market's inevitable temper tantrums and instead focus on the steady increase in their dividend income paychecks.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President