1-10-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 1-7-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	36,231.66	-0.3%	-0.3%
S&P 500	4,677.03	-1.9%	-1.9%
NASDAQ	14,935.90	-4.5%	-4.5%

After ending 2021 with a bang, the stock market began 2022 with a whimper with the Dow dropping 0.3%, the S&P 500 declining 1.9% and NASDAQ falling 4.5% during the first week of the new year due to worries over rising interest rates.

Economic Releases

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

New unemployment claims rose to 207,000 for the week ended January 1 but remained below pre-pandemic levels as the labor market sees job openings near a record high. Continuing claims for the week ended Dec. 25 were 1.754 million. Employees have been voluntarily leaving their jobs in record droves as part of the Great Resignation. Approximately 4.5 million Americans quit their jobs in November, according to the Labor Department's most recent monthly report. This is due to, in part, early retirement, concerns over COVID, lack of childcare and/or the ability to easily find another job.

The labor market posted a twelfth consecutive months of job growth with December growth of 199,000, although these gains came in at a rate slower than many expected. The unemployment rate dropped to a new pandemic-era low of 3.9% with the Fed close to meeting its objective of maximum employment. The tight labor market resulted in average hourly earnings increasing 4.7% year-over-year in December. These elevated wage increases have added fuel to concerns about inflation during the recovery.

Total construction spending increased 0.4% month-over-month in November. On a year-over-year basis, total construction spending was up 9.3% with strength seen in new single-family construction. This reflects continued strong housing demand amid a scarcity of supply in the existing home market.

The December ISM Manufacturing Index came in at 58.7%, marking the 19th straight month of expansion for the manufacturing sector, although at a slower pace. Price pressures softened due to improved supply chain conditions. However, supply chain concerns (and inflation worries) are still present as the Omicron variant is driving global staffing challenges.

Factory orders for manufactured goods increased 1.6% in November with shipments of manufactured goods rising 0.7%. Business spending slowed down after an extended period of strength.

The ISM Non-Manufacturing Index for December decreased to 62.0% from a record high 69.1% in November. The December reading marks the 19th straight month of growth for the services sector, although the softening is likely attributable to the Omicron variant.

Consumer credit increased by $39.9 billion in November or by 11%. The increase in consumer credit in November was the largest monthly increase since December 2010.

HI-Quality Company News

A summary of important earnings and/or capital allocation news announced during the past couple of weeks 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:

Paychex-PAYX reported second quarter revenues rose 13% to $1.1 billion with net income up 22% to $332.1 million and EPS up 21% to $.21. These strong financial results were driven by growth in employees within the client base and continued strong sales growth and record client retention. Higher checks per payroll reflected the tight labor market's impact on wages. Free cash flow in the first half of the fiscal year increased 30% to $490 million with Paychex paying $476 million in dividends. The company's cash flow generation and financial position remain strong with the company ending the quarter with $1.1 billion in cash and investments, $798 million in long-term debt and $3.1 billion in stockholders' equity. On a rolling 12 months, Paychex generated an impressive 43% return on equity. **Paychex raised its outlook for sales and earnings for fiscal 2022 with revenue now anticipated to grow in the range of 10% to 11% and adjusted EPS expected to increase 18% to 20%.** In the small business segment, restaurants continue to struggle the most. However, Paychex expects people to come back to the workforce in the next six months especially as rent and student loan payment deferrals abate.

FactSet-FDS reported fiscal first quarter revenues rose 9.4% to $424.7 million with net income up 6.4% to $107.6 million and EPS up 6.5% to $2.79. The revenue increase was primarily due to higher sales of analytics and research and advisory solutions. Annual Subscription Value plus professional services was $1.7 billion at quarter end. The operating margin declined to 28.9% during the quarter compared to 31.2% in the prior year period due to increased infrastructure expenses and data costs. Client count increased by a net 306 during the quarter to 6,759 primarily driven by an increase in corporate clients. User count increased by 1,229 to 162,161 in the past quarter primarily driven by an increase in research and advisory users. Annual client retention was 92%. Free cash flow declined 9% to $64.3 million due to the timing of tax payments and higher employee bonuses. During the quarter, the company paid $30.7 million in dividends and repurchased 46,200 of its shares for $18.6 million at an average price of $403.44 per share. FactSet has $181.3 million remaining authorized for future share repurchases. For the full year fiscal 2022, FactSet expects revenues in the range of $1,705 to $1,720 million with EPS in the range of $11.60-$11.90.

In separate news, **FactSet announced that it has entered into a definitive agreement to acquire CUSIP Global Services (CGS) from S&P Global for $1.925 billion in cash.** FactSet also expects to receive an estimated tax benefit of approximately $200 million as part of the transaction. The acquisition will significantly expand FactSet's critical role in the global capital markets, advancing its open data strategy. CGS generates annual revenues of approximately $175 million with consistent revenue growth rates in the mid to high single-digit range. It is expected to deliver robust margins and be immediately accretive to FactSet's adjusted operating margins. The transaction is also expected to be accretive to FactSet's adjusted diluted EPS in the first year of ownership, excluding purchase price amortization and one-time integration costs. FactSet will fund the transaction through a combination of cash-on-hand and committed financing and is expected to close during the first calendar quarter of 2022.

NIKE-NKE reported fiscal 2022 second quarter revenues increased 1% to $11.4 billion with net earnings increasing 7% to $1.3 billion and EPS increasing 6% to $0.83. By geography, North America sales increased 12% to $4.5 billion, Europe, Middle East & Africa sales increased 6% to $3.1 billion, Greater China sales decreased 20% to $1.8 billion and Asia Pacific & Latin America sales declined 8% to $1.3 billion. Gross margin increased 280 basis points to 45.9%, led by margin expansion in the NIKE Direct business driven by lower markdowns, a higher mix of full-price sales and changes in foreign currency exchange rates, partially offset by lower full-price product margins largely due to increased freight and logistics costs. Despite inventory constraints and supply chain challenges, NIKE Direct sales were up 9% to $4.7 billion and Nike Brand digital sales increased 12%, led by 40% growth in North America**. During the second quarter, NIKE paid dividends of $437 million to shareholders, up 14% from the prior year. The company repurchased $968 million of its common stock**, reflecting 6 million shares retired as part of the four-year, $15 billion program approved by the Board of Directors in June 2018. As of November 30, 2021, a total of 60.8 million shares have been repurchased under the program for a total of approximately $6.4 billion. Nike ended the quarter with approximately $15.1 billion in cash and short-term investments, up approximately $3.3 billion from last year and $9.4 billion in long-term debt. Nike expects fiscal 2022 revenue to rise mid-single digits, which reflects the ongoing impact from lost production from COVID-related disruptions in Vietnam.

Oracle-ORCL plans to acquire Cerner through an all-cash tender offer for $95.00 per share, or approximately $28.3 billion. Cerner is a leading provider of digital information systems used within hospitals and health systems to enable medical professionals to deliver better healthcare to individual patients and communities. The acquisition is expected to be immediately accretive to Oracle's earnings on a non-GAAP basis in the first full fiscal year after closing—and contribute substantially more to earnings in the second fiscal year and thereafter. Oracle's revenue growth rate has already been increasing this year and Cerner will be a huge additional revenue growth engine for years to come as Oracle expands its business into many more countries throughout the world.

According to **Mastercard-MA** SpendingPulseTM, holiday retail sales excluding automotive increased 8.5% year-over-year this holiday season, running from November 1 through December 24. This was the highest holiday spending in 17 years. Notably, online sales grew 11.0% compared to the same period last year, the preliminary insights show. Mastercard SpendingPulse measures in-store and online retail sales across all forms of payment.

According to **Starbucks-SBUX,** the company estimated December 23 was the busiest day for gift card purchases as holiday shoppers scrambled to find the final items on their lists for friends, family and co-workers. Starbucks said that nearly $3 billion dollars will be loaded onto Starbucks cards from October to December.

Roche-RHHBY announced that the U.S. Food and Drug Administration (FDA) has granted Emergency Use Authorization (EUA) for its COVID-19 At-Home Test. The test uses a simple anterior nasal swab sample that can be conveniently self-collected and self-tested by individuals aged 14 years and older, and by an adult for children aged 2-13 years old. The test can produce accurate, reliable and quick results in as few as 20 minutes for SARS-CoV-2 and all known variants of concern, including Omicron.

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Over the holidays, **FactSet, Paychex** and **Nike** all reported solid earnings reports. These reports reflect the continued strong economic recovery from the pandemic. **Mastercard and Starbucks** noted the highest holiday spending in 17 years. **FactSet** and **Oracle** joined in on the spending spree with acquisition announcements of $1.9 billion and $28.3 billion, respectively.

With elevated stock market valuations and rising interest rates, the stock market's pullback during the first week of the new year is not unexpected especially among the highly valued technology sector. We will be listening carefully to fourth quarter earnings calls during the next few weeks and updating our valuation models based on the financial results reported and the outlooks provided by management for 2022. As always, valuations drive our investment decisions. If stock prices rise ahead of the underlying value of a business, we will trim back a position and pocket partial profits. Conversely, if the stock market continues to pull back, this may present us with good buying opportunities among the ***HI***-quality businesses we own. As the world "normalizes" in 2022 so should corporate profits and stock market returns.

If you have any questions, please let us know.

Sincerely,
Ingrid R. Hendershot
President