4-12-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 4-9-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	33,800.60	+2.0%	+10.4%
S&P 500	4,128.80	+2.7%	+9.9%
NASDAQ	13,900.19	+3.1%	+7.9%

New weekly jobless claims unexpectedly rose to 744,000 last week to extend a rise from late March, despite other signs that rehiring has been taking place across the recovering economy. While initial claims did jump in the latest weekly report, the four-week moving average for regular state filings hit its lowest level in over a year. Continuing claims for the week ended March 27 dipped slightly to 3.734 million. The U.S. economy added 916,000 jobs in March, driven by robust hiring in the leisure and hospitality industry, and the unemployment rate fell to 6.0% from the previous month's 6.2%.

The ISM Non-Manufacturing Index increased to 63.7% in March from 55.3% in February. The March reading marks the tenth straight month of growth for the services sector and is the highest reading on record**.** All 18 services industries reported growth. Supply chain disruptions in many sectors could lead to higher prices.

Factory orders for manufactured goods decreased 0.8% in February after increasing an upwardly revised 2.7% in January. This is the first time in ten months that factory orders have not increased, reflecting some natural slowing. Factory orders are expected to rebound in coming months.

The trade deficit widened in February to $71.1 billion, pressured in part by the semiconductor shortage.

Consumer credit increased by $27.6 billion in February, the largest monthly increase since November 2017.

The Producer Price Index for final demand increased 1.0% in March. On a year-over-year basis, the index for final demand was up 4.2%, the highest since the 12 months ending September 2011. The large increase points to inflation issues that are apt to linger for producers and which could potentially spill over into consumer prices.

President Biden unveiled his $2.3 trillion "Build Back Better" plan to invest in the country's roads, bridges, trains, schools, housing, electric grid, manufacturing, etc. The administration said it would be the biggest federal investment program since Eisenhower's interstate highway system of the late 1950s and the Space Race of the 1960s. To help pay for it, Biden wants to increase the corporate tax from 21% to 28% and close other tax loopholes.

During the past week, the Dow and the S&P 500 rallied to record highs with the Dow gaining 2.0% and the S&P 500 rising 2.7% while the NASDAQ jumped 3.1% as Mr. Market ignored inflation concerns and focused on continued economic growth.

HI-Quality Company News

Paychex-PAYX reported third quarter revenue declined 3% to $1.1 billion with net income and EPS each down 1% to $350.5 million and $.97, respectively. Results continued to be impacted by the COVID-19 pandemic although client retention remained strong and at record levels. In fact, the company had its best third quarter net client gain thanks to its assistance in helping small businesses file for the employee retention credit on tax forms and attain $60 billion as part of the pandemic's Payroll Protection Program. Paychex received a 2021 Stevie Award as a winner for the Most Valuable COVID-19 Response. Free cash flow declined 18% year-to-date to $783.7 million due to lower earnings and working capital changes. During the past nine months, the company paid $670.5 million in dividends and repurchased 900,000 shares of common stock for $76 million at an average price of $84.44 per share. The company's financial position remained strong with cash and investments of $1.1 billion, net debt of $804 million and shareholders' equity of $3.0 billion as of quarter end. The company's strong balance sheet and operational flexibility enabled Paychex to successfully manage through the ongoing impacts of the pandemic while protecting its cash flow and liquidity. **With better than expected third quarter results, management raised their outlook for the full fiscal 2021 year** with both revenue and adjusted EPS now expected in the range of -2% to flat. Early indications for fiscal 2022 point to service revenue growth of 6%-7% with interest income in the range of $55 million to $65 million and an operating margin of 37%.

Walgreens Boots Alliance-WBA reported second quarter revenues rose 4.6% to $32.8 billion with net income from continuing operations up 6.3% to $922 million and EPS up 8.2% to $1.06. **These results came in well ahead of management's expectations** despite the significant impact from COVID-19. Revenue growth reflected strong International segment growth aided by the company's joint venture in Germany. The previously announced sale of the company's Alliance Healthcare business for $6.5 billion is now reflected as discontinued operations in the financial statements until the divestiture is completed by fiscal year end. Free cash flow in the first half of the year increased 4.8% to $1.9 billion with the company paying $808 million in dividends. Proceeds from the sale of Alliance Healthcare are expected to be used to pay down debt and reinvested in the expansion of Village Medical at Walgreens locations which should approximate 40 locations by the end of the summer. Walgreens has administered more than 8 million vaccines to date, including 4 million in March. As vaccines become more available, Walgreens plans to administer 26 million to 34 million for the year depending on the supply. Given the better than expected first half performance and improved visibility into the second half with favorable international performance, better pharmacy margins and tax rates and the increased rollout of vaccines, **Walgreens raised its adjusted EPS guidance from low single-digit growth to mid-to-high single-digit growth.**

If you are still waiting for a vaccine, Walgreens is now getting more and more vaccines to administer. The link below allows you to insert your zip code to see if a Walgreens near you has appointments available.

https://www.walgreens.com/topic/promotion/covid-vaccine.jsp

FactSet-FDS reported solid second quarter results with revenues rising 6% to $391.8 million and net income and EPS each up 9% to $96.6 million and $2.50, respectively. Annual Subscription Value (ASV) was $1.6 billion as of quarter end with organic growth up 5.5%. The operating margin expanded 90 basis points during the quarter to 29.6% because of reduced employee-related operating expenses due to the pandemic. During the quarter, client count increased 7% to 6,103 with user count up 12% to 153,355, primarily driven by an increase in wealth advisory users. During the quarter, FactSet was selected by the Royal Bank of Canada as their primary market and technology provider for their entire wealth management organization consisting of over 8,000 wealth management professionals.

FactSet's annual client retention improved to 90% year over year. **Free cash flow increased 40% during the first half of the year to $201 million** with the company paying $58.2 million in dividends and repurchasing $115 million of its common shares, including 222,000 shares repurchased for $71.5 million in the second quarter at an average price of $322.11 per share. **The Board announced an increase of $206 million to the existing share repurchase program** bringing the total available for future share repurchases to $350 million. For the full fiscal 2021 year, FactSet expects organic ASV to increase in the range of $70 million to $85 million with revenue expected to be in the range of $1.570 million to $1.585 million and EPS expected in the range of $10.05 to $10.45.

Microsoft-MSFT said it has won a deal to sell the U.S. Army augmented reality headsets based on its HoloLens product and backed by Azure cloud computing services. The contract could be worth up to $21.88 billion over 10 years.

Regeneron Pharmaceuticals-REGN announced that newly updated National Institutes of Health (NIH) COVID-19 Treatment Guidelines strongly recommend that REGEN-COV™ be used in non-hospitalized COVID-19 patients ("outpatients") at high risk of clinical progression. The new guidelines are based in part on robust clinical data involving more than 4,500 outpatients showing that REGEN-COV significantly reduced the risk of hospitalization or death by 70% compared to placebo. Despite the strong progress being made with vaccination in the U.S., approximately 2 million people a month are still diagnosed with COVID-19 and tens of thousands are at risk of dying from COVID-19.

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The U.S. economy will likely boom according to the annual shareholder letter of Jamie Dimon, CEO of JP Morgan Chase. Mr. Dimon wrote that a combination of excess savings, deficit spending, a potential infrastructure bill, vaccinations and "euphoria around the end of the pandemic" may create a boom that "could easily run into 2023." That could justify high equity valuations, but not the price of U.S. debt, given the "huge supply" soon to hit the market. There is a chance that a rise in inflation would be "more than temporary," he wrote, forcing the Fed to raise interest rates aggressively. "Rapidly raising rates to offset an overheating economy is a typical cause of a recession," he noted, but he hopes for "the Goldilocks scenario" of fast growth, gently increasing inflation and a measured rise in interest rates.

Of course, we all know that Goldilocks did eventually run into the three bears.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President