



6-21-21

## WEEKLY UPDATE

### *Economic and Market Performance*

| MARKET INDEX       | CLOSE<br>6-18-21 | WEEK<br>GAIN/LOSS | Y-T-D<br>GAIN/LOSS |
|--------------------|------------------|-------------------|--------------------|
| <b>DJIA</b>        | 33,290.08        | -3.4%             | +8.8%              |
| <b>S&amp;P 500</b> | 4,166.45         | -1.9%             | +10.9%             |
| <b>NASDAQ</b>      | 14,030.38        | -0.3%             | +8.9%              |

Initial unemployment claims unexpectedly rose last week to 412,000, ending a six-week streak of improvements, even as economic activity picked up as re-openings continued. In the coming weeks, a phase-out of enhanced unemployment benefits across many states may decrease the total number of claimants. Continuing claims for the week ended June 5 were 3.518 million.

For 2021, the Fed raised its forecast for GDP and inflation with real GDP expected to increase 7% and inflation expected to increase to 3.4%. Unemployment is expected to end the year at 4.5%. While the Federal Reserve kept interest rates unchanged and close to zero this past week and maintained its bond-buying program to help support the economy, Jay Powell indicated that the Fed is now talking about tapering the bond-buying program in the future. Powell added that current conditions are far from where the economy would need to be, especially in terms of maximum employment, for the central bank to begin raising interest rates with signals that rate increases will likely not begin until late 2022 or 2023.

The Producer Price Index for final demand increased 0.8% in May after increasing 0.6% in April. On a year-over-year basis, the Producer Price Index for final demand was up 6.6% in May versus 6.2% in April while the Producer Price Index for final demand, less food and energy, was up 5.3% in May versus 4.6% in April. This report showed a continuation of broad-based price pressures at the producer level, which will fuel continued concerns about overall inflation.

Total industrial production increased 0.8% in May. The capacity utilization rate increased to 75.2%. The report showed a rebound in motor vehicle assemblies, which is an encouraging sign about a sector that has been significantly impacted by the semiconductor shortage.

Total housing starts increased 3.6% month-over-month to a seasonally adjusted annual rate of 1.572 million units. Total permits decreased 3.0% month-over-month to 1.681 million. While housing starts showed a larger than expected increase, building permits decreased in most regions which is not going to help alleviate the ongoing supply shortage.

The Conference Board's Leading Economic Index (LEI) increased 1.3% in May. Overall, growth remained widespread with only two components of the index making small negative contributions, which were building permits and manufacturers' new orders.

Total retail sales fell 1.3% in May month-over-month after an upwardly revised 0.9% increase in April with decreases recorded in almost all discretionary categories. On a year-over-year basis, retail sales were up 28.1%.

During the past week amid increased volatility, the markets negatively reacted to concerns about inflation and a potential interest rate rise next year with the Dow down 3.4%, the S&P 500 dropping 1.9% and the NASDAQ dipping 0.3%.



**Regeneron Pharmaceuticals-REGN** welcomed positive results from the largest trial assessing any monoclonal antibody treatment in patients hospitalized with severe COVID-19. The UK RECOVERY trial found that adding investigational REGEN-COV™ to usual care reduced the risk of death by 20% in patients who had not mounted a natural antibody response on their own against SARS-CoV-2, compared to usual care on its own. "Definitive Phase 3 trials have now demonstrated that REGEN-COV can alter the course of COVID-19 infection from prevention, to very early infection, all the way through to when patients are on a ventilator in the hospital," said George D. Yancopoulos, M.D., Ph.D., President and Chief Scientific Officer at Regeneron. Regeneron is collaborating with **Roche-RHHBY** to increase global supply of REGEN-COV. Regeneron is responsible for development and distribution of the treatment in the U.S., and Roche is primarily responsible for development and distribution outside the U.S. The companies share a commitment to making the antibody cocktail available to COVID-19 patients around the globe and will support access in low- and lower-middle-income countries through drug donations to be made in partnership with public health organizations.



**Oracle-ORCL** reported fourth revenues increased 8% to \$11.2 billion with net income increasing 29% to \$4.0 billion and EPS up 38% to \$1.37. Adjusted net income and EPS increased 20% and 29%, respectively. Accelerating growth in cloud application revenue powered fourth quarter results with Fusion ERP up 46%, Fusion HCM up 35% and NetSuite up 26%. Revenue from Oracle's Gen2 Cloud Infrastructure business, including Autonomous Database, grew over 100% during the quarter. For the fiscal year ended May 31, revenues increased 4% to \$40.5 billion with net income up 36% to \$13.7 billion and EPS up 48% to \$4.55. Adjusted net income and EPS increased 11% and 21%, respectively, representing the fourth consecutive year of double-digit growth and the best results in seven years. Cloud service subscriptions now account for 71% of total revenues. During fiscal 2021, Oracle generated a record \$13.8 billion in free cash flow with the company returning nearly \$24 billion to shareholders through dividend payments of \$3.0 billion and share repurchases of \$21 billion at an average cost per share of \$63.83. During the past 10 years, Oracle has reduced its shares outstanding by more than 44%. Oracle ended the fiscal year with \$46.6 billion in cash and investments, \$76.0 billion in long-term debt and \$6.0 billion in shareholders' equity. Oracle generated a remarkable 100+% return on shareholders' equity during fiscal 2021, thanks to its profitable operations and balance sheet leverage. Management expects growth to accelerate during 2022 and beyond as the fast-growing cloud business becomes a larger portion of the business. Given the high returns on investment in the cloud, Oracle plans to nearly double its capital investments to \$4 billion in 2022. First quarter revenues for fiscal 2022 are expected to increase 3% to 5% generating non-GAAP operating margins of 47%, higher than any of Oracle's competitors.



**Biogen-BIIB** and Sage Therapeutics, Inc. announced that the WATERFALL Study in patients with Major Depressive Disorder (MDD) met its primary endpoint with zuranolone (SAGE-217/BIIB125) 50 mg showing statistically significant improvement in depressive symptoms compared with placebo at Day 15 as assessed by the 17-item Hamilton Rating Scale for Depression (HAM-D-17) total score. Monoamine-based antidepressants have been the standard of care for chronic treatment of MDD for the past 60 years. They are treatments administered daily, which require sufficient exposure and continuous use to maintain effect. Zuranolone is a two-week, once-daily oral drug under investigation for the treatment of MDD. It is a molecule that is designed to potentially provide a rapid-acting, sustainable treatment option, and could represent a breakthrough in the current management of depression. "Together with our collaboration partners at Sage, we are proud to announce highly encouraging results from the Phase 3 WATERFALL Study of zuranolone in major depressive disorder. These

results represent hope and positive progress for the more than 250 million patients worldwide who are estimated to live with depression,” said Alfred Sandrock, Jr., M.D., Ph.D., Head of Research and Development at Biogen. “Major depressive disorder is a common co-morbidity of many diseases represented in Biogen’s neuroscience portfolio. We believe zuranolone has the potential to offer a unique, first-in-class therapeutic for depression with a distinct benefit-risk profile to people living with this common but serious mental health condition.” “MDD is a pressing mental health concern and, unlike physical health concerns where innovation is commonplace, many of the treatments for MDD were first approved more than two decades ago,” said Paul Gionfriddo, President and CEO of Mental Health America (MHA). “We welcome today’s news, and the potential for a new and innovative treatment that could change the way we treat depression.” Zuranolone has been granted Breakthrough Therapy Designation by the U.S. Food & Drug Administration, and the companies intend to discuss next steps with the Agency.



**Cisco Systems-CSCO** was awarded a single-award indefinite-delivery/indefinite-quantity contract with a ceiling of \$1.2 billion for brand name Cisco Smart Net Total Care and Software Support Services for users across the Department of Defense. The period of performance is a one-year base period and two one-year option periods, for a total contract life cycle of three years.



**T. Rowe Price Group-TROW** announced that its Board of Directors has declared a special cash dividend of \$3.00 per share payable on July 7, 2021, to stockholders of record as of the close of business on June 25, 2021. William J. Stromberg, the company’s chair and chief executive officer, commented: "This special cash dividend is an efficient return of capital to our stockholders and reflects the healthy cash position on our balance sheet. After the special dividend payment, the company's balance sheet will remain very strong, with ample liquidity to continue to execute on our business strategy. In addition, we believe that the payment of the special cash dividend will not have a material impact on the company's ability to meet its ongoing financial needs, continue our outstanding dividend record for the foreseeable future, or maintain a buffer against market volatility."

\*\*\*\*

Thanks to strong cash flows, most of our **HI**-quality companies pay regular quarterly dividends which they have increased steadily for decades at rates well ahead of inflation. Several of our companies, such as **T. Rowe Price**, **Brown-Forman**, **Fastenal** and **Microsoft**, also periodically pay special dividends which are one-time payouts to reward shareholders. As T. Rowe Price noted, it is an efficient way to return excess capital to shareholders from healthy cash positions while maintaining prudent financial flexibility for future growth. Special companies pay special dividends!

If you have any questions, please let us know.

Sincerely,

*Ingrid R. Hendershot*

Ingrid R. Hendershot, CFA  
President