Hendershot
INVESTMENTS

8-17-20

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 8-14-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	27,931.02	+1.8%	-2.1%
S&P 500	3,372.85	+0.6%	+4.4%
NASDAQ	11,019.30	Less than 0.1%	+22.8%

The number of individuals filing new unemployment insurance claims fell below the one million mark for the first time since March when the pandemic forced business closures and put tens of millions of Americans out of work. Since the week ended March 20, more than 56 million individuals have filed new unemployment insurance claims. Jobless claims peaked with a one-week increase of about 6.9 million in late March. Initial jobless claims for the week ended August 8 were 963,000. Prior to the pandemic, weekly jobless claims were coming in consistently below 250,000. Continuing claims for the week ended August 1 were 15.486 million. This measure, which captures the number of individuals still receiving unemployment insurance benefits, has improved in seven of the last eight weeks' worth of reports. The steadily decreasing number of new and continuing unemployment claims point to a healing labor market.

A report on retail sales in July rose 1.2%. Meanwhile, second-quarter productivity jumped 7.3%, while second-quarter unit labor costs surged by 12.2%. Separately, a reading on industrial production rose 3% in July for the third straight monthly gain after sharp declines in March and April. These economic reports continue to suggest the economy is recovering, but at an unsteady pace due to further coronavirus outbreaks.

The Consumer Price Index (CPI) for July increased 0.6% following a 0.6% increase in June. The Fed has made it clear that discussions about an interest rate hike are not being considered. The weekly MBA Mortgage Applications Index rose 6.8% last week due to low interest rates.

The U.S. budget deficit shrank in July to the lowest level since the start of the coronavirus pandemic, but the government is still on track to post the biggest shortfall as a share of the economy since World War II because of massive federal aid for households and businesses. The U.S. deficit slid to $63 billion last month from a record $864 billion in June. The sharp decline largely reflected an expected spike in tax receipts as well as somewhat smaller spending on coronavirus relief. The government allowed businesses and individuals to delay until July tax payments normally due in April, as part of a series of measures meant to blunt the damage to the economy from the virus. The U.S. is set to record a $3.7 trillion deficit in fiscal 2020 owing to a gigantic increase in spending by the federal government to prevent the economy from sinking into depression. Last year, the budget deficit totaled just under $1 trillion.

Last week, the Dow rose 1.8%, the S&P 500 gained 0.6% and the NASDAQ was relatively unchanged.

HI-Quality Company News

3M-MMM reports July sales rose 6% to $2.8 billion with organic sales up 3%. Total sales increased 29% in Health Care, 9% in Consumer and 6% in Safety and Industrial, while Transportation and Electronics declined 7%. On a geographic basis, total sales increased 10% in the Americas, 3% in EMEA (Europe, Middle East and Africa) and were flat in Asia Pacific.

Cisco Systems-CSCO reported fourth quarter revenues declined 9% to $12.2 billion with net income routing up 19% growth to $2.6 billion and EPS up 22% to $.62. By the end of the year, Cisco had met its goal of more than half of revenues coming from software and services. Software subscriptions now make up 78% of software revenues. During the fourth quarter, product revenue was down 13%, with all products down except Security which was up 10%. Service revenue was flat. While large enterprises continued to place orders for their digital transformation due to the massive and rapid shift to remote operations during the quarter, smaller and midsize businesses paused spending to conserve cash due to the uncertainty around the pandemic. For the full fiscal 2020 year, revenues declined 5% to $49.3 billion with net income down 4% to $11.2 billion and EPS up 1% to $2.64. Return on shareholders' equity was an impressive 30% for the year. Free cash flow dipped 2% to $14.7 billion for the year with the company using this strong cash flow to pay $6 billion in dividends and repurchase $2.7 billion of its common stock. Cisco ended the year with a strong financial position with more than $29 billion in cash and investments, $11.6 billion in long-term debt and $37.9 billion in shareholders' equity. Management's outlook for the first quarter of fiscal 2021 is for revenue declines of 9%-11% and EPS in the range of $.41 to $.47. Cisco plans to cut costs by $1 billion over the next few quarters given the continued challenging environment.

T. Rowe Price Group-TROW reported preliminary month-end assets under management of $1.28 trillion as of July 31, 2020, representing a 6% increase since year end.

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Earnings season is winding down as we await second quarter earnings reports from retailers, TJX, Ross Stores and Ulta Beauty. Most companies reported better than expected results during the second quarter with 80% of S&P 500 companies beating projections by 22% in aggregate. Overall, most of our ***HI***-quality companies expect the second quarter to have marked the pandemic low for financial results with improvement anticipated in the second half of the year and into 2021 as the economy recovers. However, uncertainty remains high driven by the course of the coronavirus as we enter the fall and winter season. The stock market's strong rally since the March lows has pushed valuations up to the point where we are finding few bargains. We will likely be more of a net seller than buyer of stocks given current valuations and will remain patient and disciplined in reinvesting cash. If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President