11-16-20

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 11-13-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	29,479.81	+4.1%	+3.3%
S&P 500	3,585.15	+2.2%	+11.0%
NASDAQ	11,829.29	-0.6%	+31.8%

Approximately 709,000 Americans filed for first-time unemployment benefits last week, which is another modest improvement in the number of those newly unemployed. Continuing claims for the week ended October 31 were 6.786 million, representing a decline from the revised 7.222 million during the prior week.

The Producer Price Index (PPI) report for October was mixed, featuring a higher than expected 0.3% month-over-month increase in the index for final demand and a lower than expected 0.1% increase in the index for final demand, excluding food and energy. The Consumer Price Index (CPI) for October also showed scant inflation because of a limit on pricing power due to the pandemic.

The preliminary University of Michigan Index of Consumer Sentiment for November came in at 77.0, down from the final reading of 81.8 for October and 93.2 for the same period a year ago. The decline in sentiment stemmed from concerns about the presidential election and the resurgence in COVID infections and deaths.

For the week, the Dow gained 4.1%, the S&P 500 rose 2.2% and NASDAQ dipped 0.6%. The mixed results reflect a rotation into value stocks from the overheated technology sector as positive vaccine news took a shine off the stay-at-home stocks.

HI-Quality Company News

Cisco Systems-CSCO reported fiscal first quarter revenues declined 9% to $11.9 billion with net income down 26% to $2.2 billion and EPS off 18% to $.51. Revenues were down across all geographies due to the pandemic. The bright spots during the quarter were 6% growth in the Security segment and 2% growth in the Services segment. Free cash flow increased 16% to $3.9 billion during the first quarter with the company paying $1.5 billion in dividends and repurchasing $800 million of its common stock during the quarter at an average price of $40.44 per share. Cisco has $10 billion remaining authorized for future share repurchases. Cisco maintains a strong balance sheet and ended the quarter with $30 billion in cash and investments, $9.6 billion in long-term debt and $38.2 billion in shareholders' equity. Cisco expects second quarter revenue to be flat to down 2% with EPS expected in the range of $.55 to $.60. Cisco is encouraged by signs of improvement in their business as customers in every industry are accelerating their digital transformation.

3M-MMM reported total sales for October increased 3 percent year-on-year to $2.9 billion. Total sales increased 12 percent in Health Care, 7 percent in Consumer, and 4 percent in Safety and Industrial, while Transportation and Electronics declined 4 percent. On a geographic basis, total sales increased 3 percent in Asia Pacific and 2 percent in both EMEA (Europe, Middle East and Africa) and the Americas.

The board of directors of **Automatic Data Processing-ADP** approved a 2% increase in the quarterly cash dividend to an annual rate of $3.72 per share. The increased cash dividend marks the 46th consecutive year in which ADP has raised its quarterly dividend.

T. Rowe Price Group-TROW reported preliminary month-end assets under management of $1.30 trillion as of October 31, 2020, representing an 8% increase since year-end.

Ulta Beauty-ULTA and Target announced a strategic, long-term partnership to transform the beauty landscape with **Ulta Beauty at Target.** The "shop-in-shop" concept will offer established and emerging prestige brands online and in select Target locations nationwide beginning next year. Ulta Beauty at Target will debut at more than 100 Target locations starting in 2021, with plans to scale to hundreds more over time. The planned locations will complement Ulta Beauty's current store footprint, welcoming new guests to the brand and building upon Target's existing assortment of beauty options.

F5's-FFIV fiscal year 2021 - 2022 outlook includes total revenue growth between 6% to 7% compounded annually; software revenue growth of 35% to 40% compounded annually; and software representing at least 50% of product revenue by fiscal year 2022. Non-GAAP operating margin is expected between 31% to 32% in fiscal year 2021, expanding to between 32% to 34% in fiscal year 2022 with double-digit non-GAAP EPS growth. The company is committed to achieving "Rule of 40" where total revenue growth plus non-GAAP operating margins will total at least 40 by fiscal year 2022. The company is also setting long-term (2025) targets, which include: total revenue growth between 8% to 9%; software revenue growth of more than 20%, and software representing at least 75% of product revenue. Non-GAAP operating margin is expected in the mid-30s% with sustained double-digit non-GAAP EPS growth. F5 stated a commitment to return $1 billion of capital over the next two years, including the initiation of an accelerated share repurchase program of $500 million in fiscal year 2021 and a commitment to share repurchases of $500 million in fiscal year 2022. Beginning in FY23, the company stated an intention to return 50% of free cash flow to shareholders via share repurchases. F5 is successfully integrating both the NGINX and Shape acquisitions, including compelling early momentum with fiscal year 2020 revenue growth of 109% and 35%, respectively.

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Here are a few tidbits from the most recent *Barron's* magazine, including comments on **Berkshire Hathaway**:

Favorable news on Pfizer's Covid-19 vaccine this past week ignited a global stock market rally on hopes that the world might start to normalize in 2021. It also spurred a rotation into value-oriented stocks from growth stocks that could persist for months and years.

Berkshire Hathaway (BRK.B), the largest U.S. value stock by market capitalization, has popped recently, but its class A shares (BRK.A), at around $341,000, look inexpensive. They're valued at around 1.2 times Barron's *estimate of year-end book value—against an average 1.4 times in recent years.*

Berkshire would likely be a big beneficiary of a stronger economy because of its many industrial units, led by the Burlington Northern Santa Fe railroad. Investors also get equity exposure with a $245 billion portfolio led by Apple (AAPL), plus sleep-at-night comfort with $145 billion in cash.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President