



4-15-2024

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 04/12/2024	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	37,983.24	-2.4%	+0.8%
S&P 500	5,123.41	-1.6%	+7.4%
NASDAQ	16,175.09	-0.5%	+7.8%

Higher-than-expected inflation and growing geopolitical tensions resulted in the stock market sinking for the second week in a row with the Dow Jones dropping 2.4%, the S&P 500 falling 1.6% and the NASDAQ slipping 0.5%.

Economic Releases

First-time claims for state unemployment benefits—a proxy for layoffs—decreased 11,000 from last week to 211,000 for the week ended April 6 while continuing claims—a proxy for the number of people with ongoing unemployment benefits—increased by 28,000 to 1.817 million from the previous week. The low and steady level of initial jobless claims points to employment conditions that remain favorable for continued economic growth.

Total CPI was up 0.4% month-over-month in March while core CPI, which excludes food and energy, was also up 0.4%. On a year-over-year basis, total CPI increased 3.5%, accelerating from 3.2% in February, and core CPI was up 3.8% for the second consecutive month. The index for shelter (+0.4%) remained a significant contributor to the overall increase while the index for gasoline (+1.7%) was also a notable source of inflation in March. The expectations for a rate cut by the Federal Reserve in June dropped following the acceleration in inflation for the second consecutive month.

The March Producer Price Index for final demand (PPI) increased 0.2% month-over-month after increasing by 0.6% in February. The Producer Price Index for final demand, excluding food and energy (core PPI), also increased 0.2% month-over-month after increasing 0.3% in February. On a year-over-year basis, PPI was up 2.1% versus 1.6% in February while core PPI was up 2.4% versus 2.1% in February. Even with the smaller than expected month-over-month increases, the year-over-year growth rates for PPI and core PPI accelerated.

The preliminary April University of Michigan Index of Consumer Sentiment dropped to 77.9 versus the final reading of 79.4 for March due to the uptick in inflation expectations. Year-ahead inflation expectations rose to 3.1% from 2.9% in March. Long-run inflation expectations jumped to 3.0% from 2.8%. In the same period a year ago, the index stood at 63.7 so the year-over-year sentiment reading has improved despite recent inflation trends.

HI-Quality Company News

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



Fastenal-FAST reported first quarter sales increased 2% to \$1.9 billion with net income increasing 1% to \$297.7 million and EPS increasing 0.6% to \$0.52. Daily sales grew 1.9%, reflecting sluggish overall demand,

weather impacts and timing of the Easter holiday. Fastener sales declined 4.4%, weighed down by weak industrial production and negative pricing. Safety sales increased a healthy 8.3%, driven by strong FMI device signings that averaged 105 per day during the quarter. The warehousing end market slowed from November/December but remained strong, further contributing to safety products growth. National Accounts' daily sales rose 6.3% in the quarter, with 57 of Fastenal's top 100 customers growing. Operating margins declined 80 basis points to 20.6% on higher compensation and healthcare expenses. Management expects margins during the second quarter to be weighed down by non-recurring marketing expenses to spur growth. During the first quarter, Fastenal generated \$335.6 million in operating cash flow, down 13.6% from last year, as the pace of inventory reduction slowed to reflect smoother post-pandemic supply chains. Free cash flow of \$284.8 million declined 20% from last year on a 50% increase in capital spending. The company expects this pace of capital expenditure growth to continue for the balance of 2024 as it invests in hub capacity, facility capabilities, FMI device purchases and IT spending. **Fastenal returned \$223.2 million of capital to shareholders during the quarter through dividend payments, up from \$199.8 million last year.** Fastenal ended the quarter with \$237.1 million in cash, \$200.0 million in long-term debt and \$3.4 billion in shareholders' equity on its fortress-like balance sheet.



Roche-RHHBY announced that its Elecsys pTau217 assay received Breakthrough Device Designation from the FDA. This blood test, which is being developed in collaboration with Eli Lilly, will be used to help identify the presence or absence of amyloid pathology in individuals, which can help ensure they are able to receive appropriate care. This may include participation in clinical trials or access to approved disease-modifying therapies. **If approved, the test could help rapidly broaden access to a more timely and accurate diagnosis and potentially mitigate the impact of Alzheimer's disease on people and society.**



Both **Alphabet-GOOG** and **Meta Platforms-META** announced the launch of new chips for artificial intelligence workloads.

Amid higher volatility, the stock market fell last week due to escalating geopolitical tensions in the Middle East and Ukraine. In addition, economic data last week suggested that inflation could be stickier than previously thought, with changing expectations about the timing and extent of the U.S. Federal Reserve's rate cuts this year.

Wall Street's "fear gauge" — **the VIX (Volatility Index)** — spiked from 13 at the end of last month to close at 17.3 on Friday--levels last seen in October. The VIX reflects the market's expectation of volatility. When the VIX goes up, it indicates that investors believe the stock market will be volatile. The VIX can vary significantly based on market conditions, investor sentiment, and economic events. Here are some common ranges for the VIX:

Low Values (10-15):

When the VIX is around 10-15, it suggests that investors expect minimal volatility in the stock market.

This often occurs during periods of market stability and confidence, with Mr. Market appearing complacent over the last six months as the VIX hovered in the 12-13 range.

Moderate Values (15-25):

A VIX between 15 and 25 indicates moderate volatility.

Investors might be cautious, but not overly fearful, which is where we are today with the VIX rising to 17.

High Values (25-40):

When the VIX surpasses 25, it signifies heightened uncertainty and increased market turbulence.

Investors become more concerned about potential market swings. Last March, when Silicon Valley Bank collapsed, the VIX spiked over 30 as Mr. Market feared another potential financial crisis.

Extreme Values (Above 40):

A VIX above 40 is considered extremely high.

It often corresponds to panic or crisis situations.

During major market downturns, the VIX can spike well above this level. During the 2008 Financial Crisis and the onset of the pandemic in April 2020, the VIX topped 80 with Mr. Market extremely fearful.

We monitor the VIX as it is a valuable tool for assessing market expectations and risk appetite. However, extreme values often signal a good buying opportunity, when Mr. Market dumps stocks in a panic without regard to business fundamentals. As Warren Buffett wisely advised, "Be fearful when others are greedy and be greedy when others are fearful."

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot, CFA
President