12-19-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 12-16-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	32,920.46	-1.7%	-9.4%
S&P 500	3,852.36	-2.1%	-19.2%
NASDAQ	10,705.41	-2.7%	-31.6%

The stock market dropped for the second week in a row due to fears that the Fed's inflation fight will push the economy into a recession with the Dow dropping 1.7%, the S&P 500 declining 2.1% and NASDAQ falling 2.7% during the past week.

Economic Releases

A summary of economic releases during the past week which may impact the financial markets:

On the employment front, first-time claims for state unemployment benefits—a proxy for layoffs—decreased by 20,000 to 211,000 for the week ended December 10 while continuing claims—a proxy for the number of people with ongoing unemployment benefits—rose to 1.671 million, up 1,000 from the previous week. The strong labor market contributed to expectations that the Fed will keep raising rates to cool wage inflation.

The U.S. Consumer Price Index (CPI) rose by a seasonally adjusted 0.1% in November, which was better than expected. The CPI was up "only" 7.1% from a year earlier, versus a 7.7% increase through October. November's rise was the smallest annual change since December 2021 and is down two percentage points from its peak above 9% in June but still a long way from the Federal Reserve's 2% target.

Total retail sales, which are not adjusted for price changes, declined 0.6% month-over-month in November and retail sales, excluding autos, fell 0.2%. Monthly sales declines occurred in nearly every discretionary category except for miscellaneous store retailers and food services and drinking places.

Total industrial production decreased 0.2% month-over-month in November following a 0.1% decline in October. The capacity utilization rate dropped to 79.7% from 79.9% in October. There was broad-based weakness in the manufacturing sector.

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:

Accenture-ACN reported first quarter results for fiscal 2023 with revenues up 5% in U.S. dollars, or 15% in local currency, to $15.7 billion, net income up 10% to $1.97 billion and EPS up 11% to $3.08. Consulting generated

revenues of $8.44 billion, up 1%, or 10% in local currency, and Managed Services generated revenues of $7.3 billion, up 11%, or 20% in local currency. By region, Europe and Growth Markets generated high double-digit local currency revenue growth while North America revenues grew 11% in local currency. By business segment, Communications, Media & Technology revenues increased 11%, Financial Services banked a 2% increase, Health & Public Service and Products both grew a healthy 15% and Resources jumped 21%. New bookings declined 3%, but were up 6% in local currency, from record bookings last year. **Customers are taking longer to make decisions about purchases due to the weakening economy.** During the quarter, Accenture generated $495 million in operating cash flow, down 7% from last year on higher working capital demands, and $396.6 million in free cash flow, up 14% from last year on a substantial drop in capital expenditures. **During the quarter, Accenture returned $2.1 billion to shareholders through dividend payments of $706 million and share repurchases of $1.4 billion at an average cost per share of $272.83. For fiscal 2023, the company increased its quarterly dividend by 15% to $1.12 per share.** Accenture ended the quarter with $6.2 billion in cash and investments, $45 million in long-term debt and $23.7 billion in shareholders' equity on its pristine balance sheet. Looking ahead, Accenture expects revenue growth of 8% to 11% in local currency with foreign currency impacting the revenues by a negative 5%. EPS are expected in the range of $11.20 to $11.52, up from previous guidance of $11.09 to $11.41, and up 5% to 8% from fiscal 2022. **Accenture continues to expect** operating cash flow to be in the range of $8.5 billion to $9.0 billion, property and equipment additions to be $800 million, and **free cash flow to be in the range of $7.7 billion to $8.2 billion.** Accenture continues to expect to **return at least $7.1 billion in cash to shareholders through dividends and share repurchases during fiscal 2023.**

Oracle-ORCL reported second quarter revenue increased 18% to $12.3 billion, powered by the infrastructure and applications cloud businesses that grew 53% and 40%, respectively. In addition, Fusion Cloud ERP grew 23% and NetSuite Cloud ERP grew 25%. Cerner contributed $1.5 billion to total revenues during the quarter. Oracle generated a profit of $1.7 billion, or $.63 per share, compared to losses last year due to a payment of a judgment related to a ten-year-old dispute surrounding former CEO Mark Hurd's employment. Year-to-date, Oracle generated free cash flow of $3.1 billion compared to negative free cash flow of $278 million last year. **During the first half of fiscal 2023, Oracle returned $2.7 billion to shareholders through dividend payments of $1.7 billion and share repurchases of $1 billion.** The board of directors declared a quarterly cash dividend of $0.32 per share, payable on January 24th, 2023. Given the strong first-half performance, Oracle expects third quarter revenues to grow 17% to 19% and adjusted EPS in the range of $1.17 to $1.21.

Raytheon Technologies'-RTX **Board of Directors authorized the repurchase of up to $6 billion of the company's outstanding common stock.**

Microsoft-MSFT is acquiring a 4% stake in the London Stock Exchange (LSEG) shares from the Blackstone-Reuters consortium for an undisclosed amount. The deal calls for LSEG to spend $2.8 billion over the next decade on Microsoft products, mainly its Azure cloud service. Microsoft expects to earn an additional $2.2 billion over 10 years from traders, investors, and financial advisers who do business with the LSEG and use the cloud.

T. Rowe Price Group-TROW reported preliminary month-end assets under management of $1.34 trillion as of November 30, 2022. **This represents a 4.7% increase since October** and a 20.6% decline since year end.

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Last week, the Federal Reserve raised rates by an expected 50 basis points while noting that rates will go higher for longer until they are confident inflation gets back closer to its 2% target. A wave of rate hikes followed from central banks across the globe, including the European Central Bank and the Bank of England. The stock market pulled back as Mr. Market worried that the rate hikes will push the global economy into a recession in 2023.

Accenture acknowledged that customers are taking longer to make purchase decisions due to a weakening economy. However, the company still raised its financial outlook for the balance of fiscal 2023 with strong free cash flow expectations leading to plans for the return of at least $7.1 billion to shareholders through dividends and share repurchases. Last week, **Oracle** reported strong revenue growth in multiple areas of the business during the company's first fiscal quarter while paying $1.7 billion in dividends and repurchasing $1 billion of its stock. **Raytheon Technologies** also announced a $6 billion expansion of its share repurchase program last week. If a recession does occur, our ***HI***-quality companies are well positioned to manage through an economic downturn while continuing to reward us with growing dividends and substantial share repurchase programs thanks to strong cash flows.

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Berkshire Hathaway remains our largest investment holding. Here is a snippet from the latest *Barron's*:

Warren Buffett's company remains the ultimate defensive megacap stock and deserves strong consideration in investor portfolios. Its Class A stock rose 4% this year, against a 15% negative total return for the S&P 500. That allowed Berkshire to…rank fifth in the stock market with a $680 billion market value. The outlook for 2023 is good. CEO Buffett roused himself from post pandemic lethargy and was an aggressive buyer of stocks this year, including $10 billion of Occidental Petroleum (OXY) and about $20 billion of Chevron (CVX). He also reached a deal to buy property and casualty insurer Alleghany for $12 billion on attractive terms. Those investments will lift earnings, as will the income from Berkshire's $100 billion of cash now that short rates are up to 4%. Berkshire's earnings power is running at more than $30 billion annually, thanks to its wide range of businesses, including railroads, insurers, and energy. The stock looks reasonably priced, trading for about 1.4 times estimated year-end 2022 book value, in line with its five-year average.

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All of us at Hendershot Investments wish you and your family happy holidays!

Sincerely,

Ingrid R. Hendershot, CFA
President