1-11-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 1-08-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	31,097.97	+1.6%	+1.6%
S&P 500	3,824.68	+1.8%	+1.8%
NASDAQ	13,201.98	+2.4%	+2.4%

In the final month of 2020, U.S. job growth turned negative with 140,000 jobs lost for the first time since last April as the surge in the coronavirus resulted in more lockdowns. Leisure and hospitality employment declined the most with this industry group still down four million payrolls since February. Overall, the economy is still short 9.8 million jobs prior to the pandemic. The unemployment rate held steady at 6.7% in December.

New jobless claims came in at 787,000 in the final week of the year with continuing claims at 5.1 million for the week ended December 26th. In addition to those counted as continuing claimants, an additional 4.5 million Americans were also claiming benefits on the Pandemic Emergency Unemployment Compensation program, which offers extended insurances for those who exhausted their six months of regular state benefits. The passage of Congress's $900 billion virus-relief package extended both Pandemic Emergency Unemployment Compensation and Pandemic Unemployment Assistance — which had nearly 8.4 million claimants as of late December — until at least March.

Total construction spending increased 0.9% in November after increasing a revised 1.6% in October. Residential construction spending showed strength for another month as mortgage rates remained low, supporting demand for homes outside urban areas.

The ISM Manufacturing Index rose to 60.7% in December from 57.5% in November, reflecting an acceleration in manufacturing activity. Factory orders for manufactured goods increased 1.0% in November after increasing a revised 1.3% in October. This was the seventh consecutive monthly increase in factory orders, showing an increase in business spending.

The ISM Non-Manufacturing Index rose to 57.2% in December from 55.9% in November, reflecting a faster pace of expansion than the prior month, and it is the seventh consecutive reading above 50.0% for the services sector.

For the first week of the New Year, markets advanced to record levels with the Dow gaining 1.6%, the S&P 500 rising 1.8% and NASDAQ jumping 2.4%.

HI-Quality Company News

Walgreens Boots Alliance-WBA reported fiscal first quarter revenues increased 6% to $36.3 billion with the company reporting a loss of $308 million or ($.36) per share compared to $845 million in profits or $.95 per share in the prior year period. These results included a $1.73 per share charge related to the equity earnings in AmerisourceBergen. Adjusted EPS decreased 11%, which was better than management expected but reflected the adverse impact of COVID-19 on financial results. Free cash flow increased 13% during the quarter to $764 million with the company paying $405 million in dividends and repurchasing $100 million of its common stock. The company announced plans to divest its pharmaceutical wholesale business for approximately $6.5 billion. The transaction will be slightly dilutive in the current financial year for Walgreens Boots Alliance but will be accretive longer-term. Walgreens plans to use the cash proceeds to accelerate its investment in the VillageMD full-service primary care clinics. First quarter results exceeded expectations, reflecting strength in Boots UK and Boots Opticians. While the second quarter is expected to see higher adverse impacts from COVID-19 due to rolling lockdowns and a weaker cough, cold and flu season, the company maintained its full year guidance of low single-digit growth in adjusted EPS on a constant currency basis. Through restructuring efforts, Walgreens expects to deliver in excess of $2 billion in annual cost savings by fiscal 2022.

UnitedHealthcare

Optum, a unit of **UnitedHealth Group-UNH**, and Change Healthcare, a health care technology leader, have agreed to combine. Change Healthcare will join with OptumInsight to provide software and data analytics, technology-enabled services and research, advisory and revenue cycle management offerings to help make health care work better for everyone. The agreement calls for the acquisition of Change Healthcare's common stock for $25.75 per share in cash, or approximately $8 billion, and is expected to close in the second half of 2021. The acquisition is expected to be accretive to UnitedHealth Group's net and adjusted earnings per share by approximately $0.20 and $0.50, respectively, in 2022, advancing strongly in subsequent years, inclusive of investments to accelerate technology, system and product integration and development activities to more quickly deliver the value of this combination to all health care system stakeholders.

f5 NETWORK

F5 Networks-FFIV announced the acquisition of privately held Volterra, the first universal edge-as-a-service platform, for approximately $440 million in cash and approximately $60 million in deferred consideration and assumed unvested incentive compensation to founders and employees. The acquisition is expected to close in the first fiscal quarter. With the addition of Volterra's technology platform, F5 is creating an edge platform built for enterprises and service providers that will be security-first and app-driven with unlimited scale. In connection with the transaction, F5 raised its Horizon 2 (fiscal years 2021 and 2022) and long-term revenue outlook, and reiterated its Horizon 2 operating targets, including its commitment to achieving double-digit non-GAAP earnings per share growth. The company also reiterated its commitment to return $1 billion of capital over the next two years, including the initiation of a $500 million accelerated share repurchase in fiscal year 2021. In addition, F5 released a preview of its first quarter fiscal year 2021 financial results stating it expects GAAP and non-GAAP revenue in a range of $623 to $626 million, driven in part, by approximately 68% GAAP, and 70% non-GAAP, software revenue growth.

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If one knew in advance that the first week of the New Year would have horrific headlines of a violent mob storming the U.S. Capitol, Americans losing jobs and record daily new COVID-19 cases, hospitalizations and deaths, one might have guessed that the market would have declined in sympathy. Instead, the market started the New Year by setting record highs.

At current valuation levels, Mr. Market is pricing in a strong economic recovery in 2021 bolstered by the rollout of numerous vaccines and the massive monetary and fiscal stimulus provided by the government. With valuations at record highs, we currently find very few compelling bargains in the stock or bond market so we will remain patient and disciplined in putting any new cash to work. As we listen to fourth quarter conference calls, we will update our valuation models and likely will be pocketing more profits if the stock market rally continues. If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President