



6-13-22

## WEEKLY UPDATE

### *Market Performance*

MARKET INDEX	CLOSE 6-10-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
<b>DJIA</b>	31,292.79	-4.6%	-13.6%
<b>S&amp;P 500</b>	3,900.86	-5.1%	-18.2%
<b>NASDAQ</b>	11,340.02	-5.6%	-27.5%

Last week, as inflation accelerated to a new 40-year high and consumer sentiment fell to a record low, the Dow dropped 4.6%, the S&P 500 slumped 5.1% and the NASDAQ tumbled 5.6%.

### *Economic Releases*

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

The weekly initial unemployment claims rose by 27,000 to 229,000 for the week ending June 4, with some companies signaling a slowdown in hiring plans. Continuing claims for the week ending May 28 were unchanged at 1.31 million and still close to historically low levels.

Total CPI increased 1.0% month-over-month in May. On a year-over-year basis, total CPI was up 8.6%, accelerating from 8.3% in April. The price increases were broad-based, including price jumps for used cars and trucks and new vehicles, which many thought would be softening; the shelter index, which accounts for about one third of CPI, was up 0.6% month-over-month; the food index saw its largest 12-month increase since 1981 of 10.1%; and rising energy costs continue to challenge the hope for peak inflation. As a result, the Fed is likely to stay on an aggressive path in raising interest rates to combat inflation, including expectations for a half a percentage increase this week and also in July and September.

The preliminary University of Michigan Index of Consumer Sentiment for June dropped to 50.2 from the final reading of 58.4 for May. The June reading compares to 85.5 in the same period a year ago and is the lowest reading ever on records dating back to 1978. Inflation pressures, which are painfully apparent in rising gas prices, are seriously undermining consumer sentiment.

### *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:



BROWN-FORMAN

**Brown-Forman-BFB** reported fourth quarter revenue rose 23% to \$996 million with net income and EPS each up 26% to \$151 million and \$.31, respectively. For the full fiscal 2022 year, revenues rose 14% to \$3.9 billion. Net income and EPS each declined 7% to \$838 million and \$1.74, respectively, primarily due to higher income

taxes. Fiscal 2021 earnings included an estimated \$.20 per share benefit from the gain on sale of the Early Times, Canadian Mist and Collingwood brands. The company delivered strong, broad-based reported net sales growth across all geographic clusters and the Travel Retail Channel. Supply Chain disruptions had an adverse effect on results. Jack Daniel's Tennessee Whiskey fueled overall company performance with 20% net sales growth. Premium bourbons, led by Woodford Reserve and Old Forester, grew net sales 22% and the tequila portfolio grew net sales by 22%, driven by Herradura and el Jimador. Return on shareholders' equity for the year was a bubbly 31%. **Free cash flow during the year increased 6% to \$798 million with the company paying \$831 million in dividends, which included a special cash dividend of \$1 per share. Brown-Forman has paid dividends for 78 consecutive years and has increased the dividend for 38 straight years. The company anticipates continued growth in fiscal 2023 despite global macroeconomic and geopolitical uncertainties.** Accordingly, management expects mid-single-digit growth in underlying sales and operating income. In addition, considering the effect of inflation and the removal of the EU and UK tariffs on American whiskey, management projects gross margin to expand slightly with capital expenditures in the range of \$190 million to \$210 million.



**Tractor Supply Company-TSCO** currently forecasts second quarter net sales growth of 8% and comparable store sales growth of 5% as compared to the second quarter of fiscal 2021. Diluted earnings per share for the second quarter of fiscal 2022 is forecasted to be \$3.48 or greater. "Tractor Supply is on track to deliver record results in the second quarter on both sales and earnings. As we moved through April and the weather has normalized, we have experienced strong sales of our seasonal products. The strength of our needs-based, demand-driven business continues as **the team is effectively managing inventory levels, inflationary costs, and pressures across the global supply chain.** We believe we are well positioned to have a strong second quarter," said Hal Lawton, Tractor Supply's President and Chief Executive Officer.



**Fastenal-FAST** reported May revenues increased 23.5% to \$589.2 million with daily sales up 17.6% to \$28.1 million. Daily sales growth by geography was led by 19.1% growth in the United States. Daily growth by end market was 22.4% growth in manufacturing and 10.7% growth in non-residential construction. Daily sales growth by product line was led by 20% growth in fasteners followed by 16% growth in both safety and other products. Fastenal reported that 87% of its Top 100 national accounts grew during the month with 72% of its public branches growing. Total headcount increased 5.8% to 21,444 as of the end of May.

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The stock market experienced broad-based selling last week due to the hot inflation news and cold consumer sentiment readings. Given the acceleration in inflation, the Fed is apt to be more aggressive with its interest rate policy actions, which will impact economic growth and earnings prospects. The 10-year U.S. Treasury interest rate has more than doubled since the beginning of the year to yield 3.16% as of last Friday. Higher rates have compressed valuation multiples which explains much of the stock market's correction so far this year amid the uncertainties and economic impacts surrounding the war in Ukraine and China's continued lockdowns related to the pandemic. A more challenging economic climate, including recessionary concerns, may result in lower earnings than expected in the months ahead.

At the same time, **Brown-Forman** reported a strong fiscal fourth quarter with sales and earnings growing at 20+% rates. Brown-Forman is a good example of the types of businesses we seek to own during all types of economic climates. Despite global macroeconomic and geopolitical uncertainties, the company anticipates continued growth in fiscal 2023. Brown-Forman has paid dividends for 78 consecutive years and has increased the dividend for 38 straight years, which includes past periods of inflation and recession. **Tractor Supply's** team is also effectively managing inflationary costs and pressures across its supply chain and announced the business

expects to report record second quarter results. **Fastenal** posted 24% growth in sales in May as 87% of its Top 100 national accounts continue to grow.

With the national average price at the pump surpassing \$5.00 per gallon, everyone is feeling the impact of inflationary pressures. Gasoline underpins much of the economy, from transport and travel to production and construction. It also influences a significant amount of consumer behavior as well as inflation expectations. We will keep an eye on the direction of gas prices for a real-time indication of future inflation expectations and economic headwinds. We will also monitor carefully how our **HI**-quality businesses respond and manage through this challenging economic environment. The recent reports from Brown-Forman, Tractor Supply and Fastenal show how financially strong, profitable and well-managed companies continue to grow despite global macroeconomic and geopolitical uncertainties. While stock prices may fluctuate wildly during the short term, the underlying business value and dividend income of **HI**-quality companies continues to increase which is what builds wealth over the long term.

If you have any questions, please let us know.

Sincerely,

*Ingrid R. Hendershot, CFA*  
President