5-24-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 5-21-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,207.84	-0.5%	+11.8%
S&P 500	4,155.86	-0.4%	+10.6%
NASDAQ	13,470.99	+0.3%	+4.5%

Workers filing for new unemployment benefits fell to a new pandemic-era low of 444,000 in the latest week, hitting their lowest levels in more than a year as the labor market continued to heal from the worst days of the COVID-19 outbreak. Continuing claims for the week ended May 8 were 3.751 million. At the same time, an acute labor shortage in certain sectors of the economy is leading to wage hikes in order to entice workers back as supplemental unemployment benefits have become a barrier to hiring.

Total housing starts declined 9.5% month-over-month to a seasonally adjusted annual rate of 1.569 million units. Total permits rose just 0.3% month-over-month to 1.760 million. Expansion plans were undercut by rising costs for land, labor, and materials.

Existing home sales decreased 2.7% in April to a seasonally adjusted annual rate of 5.85 million. Total sales in April were up 33.9% from a year ago when they were severely depressed in the early stages of the pandemic. In the January-April period, they were up 20.0% year-over-year. The supply of existing homes for sale remains near all-time low levels. That is driving up the pace of price increases well beyond the pace of income gains, which is going to create affordability pressures for prospective buyers, particularly first-time buyers.

The Conference Board's Leading Economic Index (LEI) increased 1.6% in April reflecting that the strength among the leading indicators remains widespread, which is a good sign for continued economic growth.

During the past week, the markets were mixed with the Dow declining 0.5%, the S&P 500 dropping 0.4% and the NASDAQ gaining 0.3% following potential Federal Reserve taper talk about asset purchases.

HI-Quality Company News

Ross Stores-ROST rang up sales of $4.5 billion with net income of $467 million and EPS of $1.34. This compares to sales of $1.8 billion and a net loss of $306 million, or $0.87 per share, last year. Same store sales increased 13% from 2019 levels on an increase in basket, partially offset by a slight decline in traffic. First quarter sales significantly exceeded management’s expectations as the company benefited considerably from a combination of government stimulus payments, ongoing vaccine rollouts, easing of COVID restrictions and pent-up consumer demand. Operating margin of 14.2% was well above plan and slightly above 2019 as leverage from the strong comparable sales gains offset the expected expense pressures from higher freight and wages, as well as ongoing COVID-related operating costs. During the quarter, Ross Stores generated $615.9 million in free cash flow, representing a stellar 129% of reported earnings, with the company paying $101.5 million in dividends. Ross Stores ended the quarter with $5.4 billion in cash and investments, $2.4 billion in long-term debt and $3.7 billion in shareholders’ equity on its dressy balance sheet. Given the strong results and cash flow, the company’s Board authorized a new program to repurchase up to $1.5 billion of its common stock through fiscal 2022, with plans to buy back $650 million this year and $850 million in 2022. Ms. Rentler, CEO, noted, “The reinstatement of our share repurchase program reflects the current strength of our balance sheet, confidence in the company’s ability to generate excess cash after funding our growth and other capital needs of the business, and our long-standing commitment to enhancing stockholder value and returns.” For the full 2022 fiscal year, Ross expects same store sales to increase 7% to 9% from 2019 levels with EPS in the $3.93 to $4.20 range.

Cisco Systems-CSCO reported third quarter revenues increased 7% to $12.8 billion with net income increasing 3% to $2.9 billion and EPS increasing 5% to $0.68. There was broad-based strength across the business with 10% year-over-year product order growth, representing the strongest demand in nearly a decade. Product revenue increased 6% to $9.1 billion and Service revenue increased 8% to $3.7 billion. Cisco continues to make progress on transforming to more software and subscription with 81% of software revenue sold as a subscription in the quarter, up from 76% in the last quarter. Revenue by geographic region was led by 19% growth in Asia Pacific, Japan, and China. Free cash flow declined 6% during the first nine months of the year to $10.4 billion with the company paying $4.6 billion in dividends and repurchasing $2.1 billion of its common stock, including 10 million shares repurchased in the third quarter at an average price of $48.71 per share. This reflects management’s confidence in future growth and the company’s financial strength with more than $23 billion in cash and investments on its quarter end balance sheet, $9.5 billion in long-term debt and $40.2 billion in shareholders’ equity. During the quarter, Cisco closed its acquisition of Acacia Communications for $4.5 billion. Cisco is seeing encouraging signs of strength across its business segments with its technology expected to be a powerful engine for economic recovery and growth. For the fourth quarter of fiscal 2021, management expects revenue growth of 6% to 8% with EPS expected in the range of $.64 to $.69.

Hormel Foods-HRL reported second quarter sales rose 8% to a record $2.6 billion as net earnings and EPS each remained flat compared to last year, at approximately $228 million and $0.42, respectively. Free cash flow decreased 61% during the quarter to $110 million with the company repurchasing nearly $1 million of its common stock and paying $132.3 million in dividends, reflecting the company’s 371st consecutive quarter of dividend payments. Management is increasingly optimistic about generating sales and earnings growth in fiscal 2021 with the International segment expected to have a record year led by the continued strength in China, strides made in the global e-commerce business, a recovering foodservices business as restaurants open again and momentum in the deli and retail businesses. In February 2021, the company entered into a definitive agreement to acquire the Planters snack nuts business. The company expects to close the transaction in June 2021. For fiscal 2021, Hormel raised its sales guidance, expecting sales in the range of $10.2 billion-$10.8 billion with EPS expected in the range of $1.70-$1.82. These results do not include the pending Planters acquisition. “We have a very positive outlook on the foodservice industry and continue to see elevated demand in the retail, deli and international channels. As we enter this inflationary period, we will continue to offset margin pressure with price actions and supply chain improvements. Our experienced management team has a proven ability to navigate and grow our business in volatile market conditions,” said Jim Snee, chairman of the board, president and CEO.

TJX-TJX rang up $10.1 billion in first quarter sales compared to $4.4 billion last year when its stores were closed for 50% of the quarter due to the pandemic. TJX reported $534 million in first quarter net income, or $.44 per share, compared to last year’s loss of $887 million, or $0.74 per share. Management estimates that temporary store closures for about 14% of the current quarter, primarily in Canada and Europe, negatively impacted first quarter sales by $1.1 billion to $1.2 billion and EPS by about $.21 to $.24. First quarter Open-Only Comp Store Sales increased 16%, driven by 40% growth in Home Goods comp store sales and 12% growth in Marmaxx U.S. During the quarter, TJX generated negative $432.7 million in operating cash flow and negative $658 million in free cash flow from negative free cash flow of $3.4 billion last year when the company temporarily suspended its dividend. The company paid $315.2 million in dividends during the quarter and redeemed $750 million in senior 2.75% notes due 6/15/2021. TJX ended the quarter with $8.8 billion in cash, $13.2 billion in long-term debt and lease obligations and $6.1 billion in shareholder equity. Management expects to reduce its debt by $2 billion in June by calling 3.5% notes due in 2025 and 3.75% notes due in 2027, thereby saving $90 million in annual interest expense. For the start of the second quarter of fiscal 2022, overall open-only comp store sales trends remain similar to the first quarter. In the second quarter of fiscal 2022, the company expects total sales and earnings per share to be negatively impacted from the temporary store closings. Due to the continued uncertainty of the current environment, the company has suspended providing financial guidance. Commenting on the future, Ernie Herrman, President and CEO said, "While the environment remains uncertain, particularly internationally, we are convinced we are strongly positioned as we emerge from this health crisis. Looking ahead, we see numerous opportunities to capture additional market share around the world and are excited about the runway for growth we see for TJX."

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Financial reports from our ***HI***-quality companies this past week reflect the strong economic recovery following the pandemic with retailers, **Ross Stores** and **TJX**, benefiting from fiscal stimulus payments and consumer pent-up demand. **Cisco Systems** is seeing the strongest demand for its technology products in nearly a decade and **Hormel Foods** is optimistic about a recovering foodservices business as restaurants reopen. The Weekly Update will not be published next week in lieu of the quarterly newsletter.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President