



4-19-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 4-16-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,200.67	+1.2%	+11.7%
S&P 500	4,185.47	+1.4%	+11.4%
NASDAQ	14,052.34	+1.1%	+9.0%

As the economic recovery picks up speed, new weekly jobless claims dropped to a pandemic-era low of 576,000 with continued claims remaining steady at 3.73 million.

March retail sales soared 9.8% celebrating the arrival of stimulus checks and reflecting pent-up demand with double-digit gains across a variety of discretionary spending sectors. Food services and drinking places toasted the return of customers with a 13.4% gain.

Total CPI increased 0.6% month-over-month in March, the largest monthly increase since August 2012. On a year-over-year basis, total CPI was up 2.6%. However, core CPI was up only 1.6% which enables the Federal Reserve to maintain an accommodative policy since inflation is still below its 2.0% target.

Total industrial production increased 1.4% in March, and the capacity utilization rate increased to 74.4%. This suggests the downturn in February was primarily a weather-driven downturn, although March could have been stronger for industrial production if not for the ongoing shortage of semiconductors that continued to hold down vehicle production.

Housing starts surged 19.4% month-over-month in March to a seasonally adjusted annual rate of 1.739 million units boosted by a 15.3% increase in single-family starts. Building permits increased 2.7% month-over-month to 1.766 million helped by a 4.6% increase in single-family permits as strong demand for new homes continues to build.

The preliminary reading for the University of Michigan Consumer Sentiment Index for April came in at a rosy 86.5, the highest reading in a year and was paced by improved attitudes on current conditions that were helped by job gains, rising vaccination rates, low interest rates and fiscal stimulus. The report highlighted that year-ahead inflation expectations of 3.7% are the highest they have been in nearly a decade. However, inflation expectations over the next five years were lower at 2.7%.

Given the growing confidence among consumers, Federal Reserve Chair Jerome Powell said the U.S. economy is on track for stronger growth and hiring in the coming months. Powell said the economy was at an "inflection point" where growth and hiring could pick up speed over the coming months thanks to increased COVID-19 vaccinations and strong fiscal stimulus.

During the past week, the Dow and the S&P 500 again rallied to record highs with the Dow gaining 1.2%, surpassing the 34,000 milestone, with the S&P 500 rising 1.4% and the NASDAQ ascending 1.1% as Mr. Market cheered better than expected economic data and corporate earnings.



United Healthcare-UNH reported first quarter revenues increased a healthy 9% to \$70.2 billion with net earnings and EPS increasing 44% to \$4.86 billion and \$5.08, respectively. First quarter operating cost ratio of 14.6% decreased from 15.5% last year due to the repeal of the health insurance tax and continued operating efficiency gains, partially offset by business mix and increased service, growth and innovation investments. By segment, UnitedHealthcare revenues increased 8% to \$55.1 billion and Optum revenues grew 11% to \$36.4 billion. **During the quarter, United Healthcare generated free cash flow of \$5.4 billion, up from \$2.5 billion last year** and representing 109% of reported earnings. The company returned \$2.8 billion to shareholders during the quarter through dividend payments of \$1.18 billion and share repurchases of \$1.65 billion. United Healthcare ended the quarter with \$65 billion in cash and long-term investments, \$37 billion in long-term debt and \$69 billion in shareholders' equity on its strong balance sheet. Based upon initial 2021 business performance trends, the company increased its full year net earnings outlook to \$17.15 to \$17.65 per share, up 8.5% from 2020 at the midpoint. This outlook continues to include about \$1.80 per share in potential net unfavorable impact to accommodate continuing COVID-19 effects, including the residual impact of people having deferred care in 2020 and unemployment and other economy-driven factors. UnitedHealth Group expects a continued rise in pandemic-related care as the year progresses including testing, treatment and vaccinations.



PepsiCo-PEP reported first quarter revenues rose 7% to \$14.8 billion with net income popping 28% higher to \$1.7 billion and EPS jumping 29% to \$1.24. These solid results reflect the benefits of the company's highly strategic acquisition activity to capitalize on additional global growth opportunities and continued investments in its multitude of billion-dollar brands, manufacturing capacity, supply chain and marketing systems. Core operating profit and EPS increased 7% and 14%, respectively, reflecting the benefits of ongoing efforts to tightly control costs. During the quarter, PepsiCo gained market share across many of its key global snacks and beverage markets with notable improvements in the U.S. snacks and beverage businesses with double-digit net revenue growth in bubbly, Starbucks, Funyuns and the SodaStream business. PepsiCo expanded its presence in the energy drink category with the launch of Mountain Dew Rise Energy while Frito's performance benefited from the introduction of Doritos 3D Crunch and Cheetos Crunch Pop Mix. On the international front, the developing and emerging markets remained resilient despite the pandemic with double-digit growth in Brazil, Russia and China. Management expects organic revenue growth to accelerate in the second quarter as vaccination efforts accelerate and population mobility improves. For the full 2021 year, PepsiCo continues to expect mid-single-digit organic revenue growth and high-single-digit core constant currency EPS growth. **In 2021, the company plans to pay \$5.9 billion in dividends to shareholders, a 5% increase over last year.** Share repurchases will be curtailed this year as the company focuses on investing in the business and paying down debt from recent acquisitions.



Fastenal-FAST reported first quarter sales rose 3.7%, or 5.3% on a daily basis, to \$1.4 billion with net income up 3.9% to \$210.6 million and EPS up 3.7% to \$.37. The first quarter results include a \$7.8 million write-down of 3-ply masks as supply now exceeds demand. Growth during the quarter was largely due to higher unit sales, most notably of fastener, safety and janitorial products. Underlying demand is improving with fastener daily sales growth increasing to 14% in March. The company managed to leverage operating expenses, despite lost sales from February storms and one less selling day. Supply chain pressure and product cost inflation is leading Fastenal to broadly raise prices in the second quarter. **Free cash flow increased 26% in the quarter to \$274.8 million** with the company paying \$160.8 million in dividends. Fastenal's balance sheet remains solid with minimal debt and ample liquidity.



Microsoft-MSFT announced they will acquire Nuance for \$56.00 per share in an all-cash transaction valued at \$19.7 billion, inclusive of Nuance's net debt. Nuance is a trusted cloud and AI software leader representing decades of accumulated healthcare and enterprise AI experience. The transaction is intended to close this calendar year. Upon closing, Microsoft expects Nuance's financials to be reported as part of Microsoft's Intelligent Cloud segment. Microsoft expects the acquisition to be minimally dilutive (less than 1 percent) in fiscal year 2022 and to be accretive in fiscal year 2023 to non-GAAP earnings per share. The acquisition will not impact the completion of its existing share repurchase authorization.



Mobileye, an **Intel-INTC** company, and Udelv, a Silicon Valley venture-backed company, announced that Mobileye's self-driving system — branded Mobileye Drive™ — will "drive" the next-generation Udelv autonomous delivery vehicles (ADV), called "Transporters." The companies plan to produce more than 35,000 Mobileye-driven Transporters by 2028, with commercial operations beginning in 2023. The deal with Udelv advances Mobileye's global mobility-as-a-service ambitions, validating the company's technology and business approach. Mobileye plans to deploy autonomous shuttles with Transdev ATS and Lohr Group beginning in Europe. Mobileye also plans to begin operating an autonomous ride-hailing service in Israel in early 2022.

In other news, Intel's CEO Pat Gelsinger said in a CNBC interview that the U.S. has to start building more chip capacity across the world. We are too dependent on production in a few Asian countries. The U.S., at 12% of global supply, is headed to 10%. The U.S. had been 37% of global supply 20 years ago. Intel believes one-third of chip supply should be back on U.S. soil and provided by U.S. companies.

REGENERON

Regeneron Pharmaceuticals-REGN announced positive results from a Phase 3 trial assessing the ability of REGEN-COV™ to reduce the risk and burden of COVID-19 infection among household contacts of SARS-CoV-2 infected individuals. If authorized, convenient subcutaneous administration of REGEN-COV could help control outbreaks in high-risk settings where individuals have not yet been vaccinated, including individual households and group living settings.

Johnson & Johnson

The FDA and CDC issued a statement regarding the **Johnson & Johnson-JNJ** COVID19 vaccine, recommending a pause in the use of this vaccine out of an abundance of caution. As of 4/12/21, 6.8 million doses of the JNJ vaccine had been administered in the U.S. The CDC and FDA are reviewing data involving 6 reported U.S. cases of a rare & severe type of blood clot in individuals after receiving the vaccine. Right now, these adverse events appear to be extremely rare. Treatment of this specific type of blood clot is different from the treatment that might typically be administered. JNJ responded, "The safety and well-being of the people who use our products is our number one priority. We are aware of an extremely rare disorder involving people with blood clots in combination with low platelets in a small number of individuals who have received our COVID-19 vaccine. The United States Centers for Disease Control (CDC) and Food and Drug Administration (FDA) are reviewing data involving six reported U.S. cases out of more than 6.8 million doses administered. Out of an abundance of caution, the CDC and FDA have recommended a pause in the use of our vaccine. In addition, we have been reviewing these cases with European health authorities. We have made the decision to proactively delay the rollout of our vaccine in Europe. We have been working closely with medical experts and health authorities, and we strongly support the open communication of this information to healthcare professionals and the public."

As the stock market hits record highs, signs of “irrational exuberance” often appear. Exemplifying this is a recent headline from the cover of *New York Magazine* which asks, “Can I SPAC My Stonks With NFTs?” If you have not heard of SPACs (Special Purpose Acquisition Corporations), Stonks (slang for meme stocks) or NFTs (Non-Fungible Tokens), count yourself lucky. Speculative excesses in these vehicles will likely lead to substantial losses, just as trading tulip bulbs did centuries ago or buying Beanie Babies did a couple of decades ago.

The prudent investor will avoid these losses by watching the frenzied sideshows from afar while continuing to focus on purchasing high-quality businesses at reasonable valuations for the long-term. This investment strategy results in long-term investment success as demonstrated by several of our **HI**-quality businesses this past week. **UnitedHealthcare** more than doubled its free cash flow during the first quarter to \$5.4 billion, **PepsiCo** announced it will pay shareholders \$5.9 billion in dividends in 2021, **Fastenal** increased its free cash flow 26% during the first quarter to \$275 million and **Microsoft** announced a \$19.7 billion cash acquisition of Nuance. Remember, the value of any asset is the amount of cash it will generate over its lifetime. Our **HI**-quality businesses generate significant amounts of cash which “spac-tacularly” reward us as investors....no stonks or NTFs about it!

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President