8-23-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 8-20-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	35,120.28	-1.1%	+14.7%
S&P 500	4,441.67	-0.6%	+18.3%
NASDAQ	14,714.66	-0.7%	+14.2%

Initial unemployment claims fell further last week to 348,000, the lowest level since March 2020 with continuing claims dipping to 2.82 million. The major issue for employers recently has been to find and retain the workers they want.

Total retail sales declined 1.1% month-over-month in July. There were declines in most retail categories with the notable exception of food services and drinking places which were up 1.7%.

Total industrial production increased 0.9% in July. The capacity utilization rate increased to 76.1% with the potential for increased industrial production activity when the automobile semiconductor shortage issue is resolved.

Total housing starts declined 7.0% month-over-month to a seasonally adjusted annual rate of 1.534 million units while building permits increased 2.6% month-over-month to a seasonally adjusted annual rate of 1.635 million. The decline in starts for single-family units points to the resistance of prospective buyers to high prices and some of the hesitancy to build new homes due to the high costs for materials, land and labor.

The Conference Board's Leading Economic Index (LEI) increased 0.9% in July. Overall growth was widespread with all 10 indicators making positive contributions.

Despite a Friday bounce, the stock market pulled back last week over concerns about future economic growth with the Dow sliding 1.1%, the S&P 500 dropping 0.6% and the NASDAQ declining 0.7%.

HI-Quality Company News

The UK Medicines and Healthcare products Regulatory Agency approved the monoclonal antibody treatment for the prevention and treatment of COVID-19 in the UK. Developed by **Regeneron-REGN and Roche-RHHBY**, the drug is administered either by injection or infusion and acts at the lining of the respiratory system where it binds tightly to the coronavirus and prevents it from gaining access to the cells of the respiratory system. Clinical trial data assessed by a dedicated team of MHRA scientists and clinicians has shown that Ronapreve may be used to prevent infection, promote resolution of symptoms of acute COVID-19 infection and can reduce the likelihood of being admitted to the hospital due to COVID-19.

Ross Stores-ROST reported second quarter revenues increased 79% to $4.8 billion with net income and EPS both significantly increasing over last year's depressed results to $494 million and $1.39, respectively. Comparable store sales rose a robust 15% during the quarter reflecting a larger average basket and slightly higher traffic into the stores. Growth was broad based with strength seen in children's products and in the Midwest region of the U.S. About 50% of Ross' sales come from Texas, California and Florida, which saw tourism pick up during the quarter. Sales and earnings substantially exceeded management's expectations during the quarter and benefited from customers' positive response to the company's broad assortment of great bargains, ongoing government stimulus payments, increasing vaccination rates and diminishing COVID restrictions. Free cash flow rose significantly to $1.1 billion during the first half with the company paying $203 million in dividends and repurchasing $176 million of its common stock at an average price of $125.71 per share. Ross plans to buy back a total of $650 million of its stock for the full fiscal 2021 year. Given the uncertainty and risk related to the spread of the COVID variants and worsening industry-wide supply chain congestion, Ross sees third quarter same store sales growth decelerating to 5% to 7% with EPS in the range of $.61 to $.69. This guidance reflects expectations for significantly escalating freight and supply chain costs and higher COVID and labor costs. For the full fiscal 2021 year, Ross expects comparable store sales gains of 10% to 11% with EPS expected in the range of $4.20 to $4.38.

Cisco Systems-CSCO reported fourth quarter revenues increased 8% to $13.1 billion with net income routing up 14% growth to $3 billion and EPS up 15% to $.71. Cisco had double-digit order growth across all customer markets and geographies, including product order growth of 31%, the strongest year-over-year growth in over a decade. During the quarter, Cisco had continued growth in its software and subscription business, with a 6% increase in software revenue and a 9% increase in subscription revenue. During the fourth quarter, product revenue was up 10% and service revenue increased 3%. For the full fiscal 2021 year, revenues increased 1% to $49.8 billion with net income down 6% to $10.6 billion and EPS down 5% to $2.50. Return on shareholders' equity was an impressive 26% for the year. Free cash flow remained flat at $14.8 billion for the year with the company using this strong cash flow to pay $6.2 billion in dividends and repurchase $2.9 billion of its common stock. Cisco ended the year with a strong financial position with more than $24 billion in cash and investments, $9 billion in long-term debt and $41.3 billion in shareholders' equity. Management's outlook for the first quarter of fiscal 2022 is for revenue growth of 7.5%-9.5% and EPS in the range of $.61 to $.66. Guidance for the full fiscal year 2022 is for revenue growth of 5%-7% and EPS in the range of $2.72 to $2.84.

The TJX Companies-TJX reported second quarter sales jumped 81% to $12.1 billion, driven by a 20% increase in open-only comp store sales with strong double-digit growth in all U.S. and international divisions. TJX rang up a profit of $785.7 million, or $.64 per share, compared to losses last year due to store closures related to the pandemic. The $.64 in EPS includes a debt extinguishment charge of $.15 per share as the company repaid debt early and reduced its outstanding debt by $2.75 billion since the beginning of the year. Free cash flow improved significantly in the first half to about $500 million with the company paying $629 million in dividends and

repurchasing $297 million of its common stock at an average price of about $64.59 per share. The company expanded its share buyback program by $250 million and now plans to repurchase about $1.25 billion to $1.5 billion of its stock in fiscal 2022. The company ended the quarter with $7.1 billion in cash and investments, $3.4 billion in long-term debt and $6.4 billion in shareholders' equity on its strong balance sheet. Sales are very strong to start the third fiscal quarter with overall open-only comp store sales up mid-teens compared to the prior year period. While the environment remains uncertain, particularly with the Delta variant, TJX sees numerous opportunities to continue to gain market share and improve profitability in the medium to longer term. Management remains confident in their ability to reach their long-term strategic vision of TJX becoming a $60 billion revenue company.

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Tidbits from ***Barron's*** cover story on "Big Tech," which highlights several of our ***HI***-quality companies:

*"Over three days in late July, America's tech giants put on an impressive show**. Apple, Microsoft, Alphabet**, Amazon.com, and **Facebook** had thrived in the pandemic, and their latest earnings reports hammered home the point. The five companies generated a combined $332 billion in revenue from April to June, up 36% from a year earlier. All of their profits were better than expected. The twist is that all of their stocks, save for Alphabet's, sold off on the news.*

[Along with regulatory concerns]…there are near-term challenges, to be sure. A postpandemic hangover looks the most obvious at Amazon, where e-commerce is growing more slowly than in the past. Apple's quarantine-fueled hardware boom has slowed. And all of Big Tech's hardware arms are feeling the effects of component shortages and skyrocketing shipping costs. Apple has said that iPhone production could be crimped by parts shortages.

Another worry: Big Tech's dominance has some investors seeing a peak in valuations. Apple, which leads the pack with a $2.4 trillion market value; Microsoft ($2.2 trillion); Alphabet ($1.8 trillion); Amazon ($1.6 trillion); and Facebook ($1 trillion) now account for 23.3% of the S&P 500 index's value.

Taken together, the five tech giants—the largest companies in the U.S. stock market by a wide margin—offer a way to invest in the global economy's most important trends: digital transformation and cloud computing, and the future of communication, entertainment, commerce, and work."

We initially invested in Apple, Alphabet and Microsoft more than a decade ago and Facebook three years ago when valuations appeared reasonable as all their business models met our investment criteria. We know that steady growth, strong balance sheets, high profitability and bountiful free cash flow generation leads to successful long-term investments. While we have benefited greatly from our investments in these ***HI***-quality companies and long-term growth opportunities still appear promising, we will periodically pocket partial profits on positions that become overvalued and oversized in our portfolios.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

President