Hendershot INVESTMENTS

6-28-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 6-25-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,433.84	+3.4%	+12.5%
S&P 500	4,280.70	+2.7%	+14.0%
NASDAQ	14,360.39	+2.4%	+11.4%

New weekly jobless claims declined last week to 411,000 with continuing claims at 3.39 million for the week ended June 12. At 411,000, jobless claims are still above their pandemic-era low of 375,000 and the 2019 average of just over 200,000 new claims per week. Overall, initial filings have been on the decline with broader business re-openings from New York to Los Angeles helping boost economic activity and the demand for labor. Issues in the labor market have now primarily been on the supply rather than demand side as many companies have cited difficulties in finding workers to fill job openings, especially in the service sector.

Personal income decreased 2.0% month-over-month in May driven by an 11.8% decline in government social benefits, while personal spending was unchanged. The PCE Price Index jumped 0.4% month-over-month and was up 3.9% year-over-year. Despite the rise in inflation, long-term bond yields barely moved as many believe we may be seeing peak inflation, meaning market participants are anticipating better inflation news in coming months.

Durable goods orders increased 2.3% month-over-month in May and were up 25.7% year-over-year. Strength was seen in transportation equipment (+7.6%), which was driven by a 2.1% increase in orders for motor vehicles and equipment and a 27.4% increase in orders for nondefense aircraft and parts.

New home sales declined 5.9% month-over-month in May to a seasonally adjusted annual rate of 769,000. On a year-over-year basis, new home sales were up 9.2**%.** New home sales, which are counted when contracts are signed, are being squeezed by high costs for builders and high prices for buyers. This connection is showing up in the reduced percentage of sales for homes priced under $399,999 and the increased percentage of sales for homes priced over $500,000.

Existing home sales decreased 0.9% month-over-month in May to a seasonally adjusted annual rate of 5.80 million. Total sales in May were up 44.6% from a year ago when they were depressed in the early stages of the pandemic. The supply of existing homes for sale remains extremely limited. 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 final June reading for the University of Michigan Index of Consumer Sentiment slipped to 85.5 from the preliminary reading of 86.4 but was above the final reading for May of 82.9. The uptick in sentiment in June was driven by households with incomes above $100,000 and their view of future economic prospects.

During the past week, Mr. Market cheered the potential infrastructure deal with the Dow rising 3.4%, the S&P 500 increasing 2.7% to a record high and the NASDAQ gaining 2.4%.

Paychex-PAYX reported strong fourth quarter results with revenues up 12% to $1.0 billion, net income up 19% to $263 million and EPS jumping 20% to $.73. Double-digit growth during the fourth quarter was driven by a record 85% client retention level, record sales results and stronger checks per client, which were due to improving macroeconomic conditions and gains in employment. The client base growth was strong, and Paychex ended the year with over 710,000 clients thanks to the value the company added for clients during the pandemic. For the full fiscal 2021 year amid unprecedented challenges, Paychex reported flat revenues, net income and EPS of $4.1 billion, $1.1 billion and $3.03, respectively. Return on shareholders' equity was a superb 37.2% for the year. Free cash flow declined 13% during the year to $1.1 billion with the company paying $909 million in dividends and repurchasing 1.7 million shares of its common stock for $156 million at an average price of $91.59 per share. Paychex is well positioned for growth in fiscal 2022 with total revenue anticipated to grow approximately 7% and adjusted EPS growth of 10%-12% expected.

Nike-NKE rang up a 96% jump in fourth quarter sales to $12.3 billion with earnings of $1.5 billion and EPS of $0.93 compared to last year's fourth quarter loss of $790 million, or $0.51 per share. North America sales, which accounted for more than 40% of Nike's total quarterly revenue, spiked 141% higher amid reopening of the economy, increased wholesale as supply chain issues abated and continued growth in NIKE Brand Digital sales which jumped 41%. Despite temporary COVID-related retail store closures, Europe, the Middle East and Africa sales increased 124% to nearly $3 billion, boosted by a 40% increase in digital sales and the gradual reopening of markets across the region. Sales in Greater China increased 17% to $1.9 billion as boycotts by consumers in response to Nike's decision to check its supply chain for the use of forced labor by Uighurs and other ethnic minorities likely muted demand for Nike products though sales trends improved during the quarter. For the year, Nike reported sales of $44.5 billion, up 19% from last year, with earnings up 126% to $5.7 billion and EPS up 123% to $3.56. During fiscal 2021, Nike generated a winning 44.9% return on shareholders' equity. Nike has a strong track record of investing to fuel growth and running up shareholder returns through share repurchases and dividends, including 19 consecutive years of dividend increases. During 2021 Nike returned $2.25 billion to shareholders through dividend payments of $1.6 billion and share repurchases of $650 million at an average cost per share of $132.65. Looking ahead to fiscal 2022, Nike expects revenue to grow in the low double-digits, surpassing $50 billion, with gross margins expanding 125 basis points to 150 basis points, reflecting the continued shift to a more profitable NIKE Direct business and sustained strong full price realization, partially offset by higher product costs and supply chain investments.

Accenture-ACN reported excellent third quarter results with revenues up 21% to $13.2 billion and net income and EPS each jumping 26% to $1.6 billion and $2.40, respectively. Operating margin expanded 40 basis points to 16% during the quarter. New booking increased 39% during the quarter to $15.4 billion with consulting bookings of $8 billion and outsourcing bookings of $7.4 billion. These strong financial results reflect significant market share gains and the continued momentum driven by the demand for digital transformation for clients. Accenture is seeing not only the strong recovery from the pandemic but sustained growth in demand as the cloud becomes critical for clients. Growth was broad-based across geographic markets with double-digit growth in all regions, led by 18% growth in North America, and double-digit growth in 11 of 13 industry groups led by 21% growth in Health and Public Service. Year-to-date, free cash flow increased 33% to $6.2 billion. During the first nine months, Accenture paid $1.7 billion in dividends and repurchased $2.8 billion of its common stock at an average price of $253.64 per share. Accenture's remaining share repurchase authorization is $4.2 billion. Year-to-date, Accenture has acquired 39 innovative companies for $1.5 billion bringing the company scale and new or expanded capabilities. Accenture raised financial projections for the full fiscal 2021 year with revenue now expected to increase 10% to 11%, operating margin expected to expand 40 basis points to 15.1% and EPS in the range of $9.07 to $9.16, representing 15% to 16% growth. Free cash flow for the full year is expected in the range of $8.0 billion-$8.5 billion with the company planning to return at least $5.8 billion to shareholders via dividends and share repurchases.

REGENERON

Regeneron-REGN and Intellia Therapeutics announced positive interim data from an ongoing Phase 1 clinical study of their lead in vivo genome editing candidate, NTLA-2001, which is being developed as a single-dose treatment for transthyretin (ATTR) amyloidosis. NTLA-2001 is the first CRISPR/Cas9-based therapy candidate to be administered systemically, via intravenous infusion, for precision editing of a gene in a target tissue in humans. NTLA-2001 is designed to inactivate the TTR gene in liver cells to prevent the production of misfolded transthyretin (TTR) protein, which accumulates in tissues throughout the body and causes the debilitating and often fatal complications of ATTR amyloidosis. "This is exciting early data both for people living with this devastating disease and for the entire scientific community working to maximize the potential of genetics-based medicines through cutting-edge research and technologies," said George D. Yancopoulos, M.D., Ph.D., President and Chief Scientific Officer of Regeneron, which first partnered with Intellia in 2016 to advance CRISPR/Cas9 gene-editing technology for in vivo therapeutic development. "Thanks to large-scale human genetics research, there have been many new genetic targets identified and confirmed to have an impact on human health. Combining this knowledge with the precision and enhanced convenience of a single CRISPR infusion unlocks new possibilities in treating – and potentially even curing – life-threatening and historically difficult-to-address diseases."

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Warren Buffett has now pledged half of his **Berkshire Hathaway** shares to charity, giving another $4.1 billion to five foundations this past week as part of his long-standing annual commitment to philanthropy which has totaled $41 billion so far. He still owns 238,624 shares of Berkshire worth more than $100 billion which are also "destined for philanthropy." Buffett repeated comments he has made before about dynastic wealth, "After much observation of super-wealthy families, here's my recommendation: Leave the children enough so that they can do anything but not enough that they can do nothing." Buffett concluded in the letter linked below, "I'm optimistic. Though naysayers abound – as they have throughout my life – America's best days most certainly lie ahead. What's happened here since 1776 has not been a historical fluke. Philanthropy will continue to pair human talent with financial resources. So, too, will business and government. Each force has its particular strengths and weaknesses. Combined, they will make the world a better place – a much better place – for future generations."

https://www.berkshirehathaway.com/news/jun2321.pdf

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We will be skipping the Weekly Update next week as we work on your 6/30/21 quarter-end reports.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President