Hendershot INVESTMENTS

3-22-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 3-19-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	32,627.97	-0.5%	+6.6%
S&P 500	3,913.10	-0.8%	+4.2%
NASDAQ	13,215.94	-0.8%	+2.5%

U.S. new weekly jobless claims unexpectedly rose 45,000 last week to 770,000 even amid a wave of abating social distancing restrictions and improving weather. Continuing claims dipped slightly to 4.124 million. Trends in new jobless claims are expected to improve into the spring and summer as the vaccine rollout continues and COVID-19 case counts retreat further. Last week, President Biden announced that he would direct states to make all citizens eligible for vaccinations by May 1, rapidly expanding the potential for the country to achieve herd immunity in the near-term.

Total retail sales declined 3.0% in February. However, there were large upward revisions to January sales, with total sales increasing 7.6%. The "weakness" in February was a byproduct of the tremendous strength in January, which made the sequential comparison difficult. The new round of stimulus checks is just now starting to hit deposit accounts and will likely help boost retail sales in March and April.

Total industrial production decreased 2.2% in February, and the capacity utilization rate dropped to 73.8% with the decline influenced by the severe winter weather in the south-central region of the country in mid-February. Expectations are for a quick and sizable rebound in March.

Housing starts declined 10.3% month-over-month in February to a seasonally adjusted annual rate of 1.421 million units and building permits declined 10.8% to a seasonally adjusted annual rate of 1.682 million. The declines were impacted by the severe winter weather that hit in mid-February along with rising lumber costs and rising mortgage rates which will lead to some slowing in the homebuilding industry.

The Conference Board's Leading Economic Index (LEI) increased 0.2% in February, marking the tenth consecutive monthly increase. This report has not yet fully captured the momentum of the vaccination program and the passage of the $1.9 trillion stimulus package, which should show a higher reading next month, especially as business activity rebounds from the transitory impact of adverse winter weather seen in the South and Midwest in mid-February.

According to new economic projections released by the Federal Reserve last week, the future looks brighter. The central bank expects gross domestic product to rise by 6.5% in 2021 and unemployment to continue to fall to 4.5% by year’s end, down from 6.2% reported in February. The Fed said it will hold interest rates steady through 2023, even though the stronger economic picture means higher inflation which the Fed says will rise to 2.4% in 2021. The Fed expects the inflation rise to be transitory and taper off in 2022 and 2023 to 2% and 2.1%, respectively. Treasury yields have risen recently in line with the improving economic outlook, while interest rates on 30-year mortgages topped 3% for the first time since last summer.

During the past week, the stock market pulled back amid rising interest rates with the Dow declining 0.5% and the S&P 500 and the NASDAQ each dropping 0.8%.

Nike-NKE reported third quarter revenues increased 3%, or down 1% on a currency-neutral basis, to $10.4 billion with net earnings racing ahead 71% to $1.45 billion and EPS jumping 70% to $0.90. Excluding a $0.25 non-cash charge last year related to a distribution model change in South America, EPS increased 15%. By geography, North America sales declined 11% to $3.6 billion, largely due to global container shortages and U.S. port congestion which delayed the flow of inventory in the third quarter by more than three weeks, partially offset by NIKE Direct sales growth of 15%. EMEA sales declined 9% to $2.6 billion as 45% of NIKE-owned stores experienced mandatory COVID-19 related closures for the last two months of the quarter, partially offset by a 60% jump in digital sales. Today, about 65% of stores in EMEA are open or operating on reduced hours. Greater China revenues increased 42% to $2.3 billion, reflecting strong growth versus the third quarter of 2019 when sales were depressed by the impact of COVID-19, as well as continued strong digital sales growth of 44%. Asia Pacific & Latin America sales declined 8% to $1.3 billion. Nike ended the quarter with cash and short-term investments of $12.5 billion, boosted by proceeds from a corporate bond issuance in last year's fourth quarter and positive free cash flow, partially offset by cash dividends paid. NIKE continues a strong track record of investing to fuel growth and consistently increasing returns to shareholders, including **19 consecutive years of increasing dividend payouts**. In the third quarter, Nike paid dividends of $434 million to shareholders, up 14% from last year. Nike temporarily suspended share repurchase activity in March 2020 to maximize liquidity during the COVID-19 pandemic. Prior to the temporary suspension of the share repurchase program, a total of 45.2 million shares had been repurchased under the program for approximately $4.0 billion. **Nike expects to resume share repurchases under its existing share repurchase program in the fourth quarter of fiscal 2021.**

accenture
High performance. Delivered.

Accenture-ACN reported strong second quarter results with revenues rising 9% to $12.1 billion and net income and EPS each up 17% to $1.4 billion and $2.23, respectively. Excluding a gain on investments during the quarter, adjusted EPS was up 10%. Operating income increased 11% to $1.65 billion with operating margin expanding 30 basis points to 13.7%. Growth was broad-based driven by 7% growth in North America and double-digit growth in Financial Services and Health & Public Services. **Free cash flow jumped 92%** during the first half of fiscal 2021 to $4 billion with the company paying $1.1 billion in dividends, an increase of 10%, and repurchasing $2 billion of its common shares. The company has $5 billion remaining authorized for future share repurchases. During the first half of the year, Accenture also acquired 19 companies for $1.1 billion with plans to complete at least $2 billion of acquisitions for the full year. COVID-19 hit a giant fast-forward button for businesses to securely move their businesses into the cloud through increased technology investments. As a result, Accenture's engine of growth roared to life to meet this strong demand for its services. New booking increased 13% to a record $16 billion with record bookings in both consulting and outsourcing at $8 billion each. With outstanding second quarter financial results, **Accenture returned to overall pre-pandemic growth ahead of expectations while continuing to gain market share.** As a result, **the company raised all its elements of its business outlook for fiscal 2021**. Management now expects full year constant currency revenue growth of 6.5% to 8.5% with double-digit EPS growth in the range of $8.67 to $8.85. Free cash flow for the full year is expected in the range of $7 billion to $7.5 billion with the company returning at least $5.8 billion to shareholders through dividends and share repurchases.

Alphabet

Alphabet-GOOGL announced it will spend $7 billion this year on an expansion of its U.S. facility footprint, adding at least 10,000 jobs across a host of cities, among them Atlanta, Washington, D.C., Chicago, and New York. This positions Google as a major private sector contributor to the economic recovery from the COVID-19 downturn.

Regeneron Pharmaceuticals-REGN and Sanofi announced positive results demonstrating an overall survival benefit from the Phase 3 trial investigating the PD-1 inhibitor Libtayo (cemiplimab) monotherapy compared to chemotherapy, in patients previously treated with chemotherapy whose cervical cancer is recurrent or metastatic. The trial will be stopped early based on a unanimous recommendation by the Independent Data Monitoring Committee (IDMC), and the data will form the basis of regulatory submissions in 2021.

Facebook-FB has already connected over two billion people to authoritative COVID-19 information. Going a step further as access to COVID-19 vaccines expands, Facebook is helping 50 million people find out when and where they can get a vaccine through information and registration tools on Facebook, Instagram and WhatsApp. By working closely with national and global health authorities and using its scale to reach people quickly, Facebook is doing its part to help people get credible information, get vaccinated and come back together safely. Facebook plans to expand to other countries as vaccines are available more widely.

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Nearly a decade ago, the Federal Reserve set a 2% inflation target. Since then, inflation has hovered around that target with more concern about deflation rather than inflation in recent years. However, given the massive stimulus to help the economy recover from the pandemic, inflation concerns have been rising along with interest rates albeit from historically low levels. Economists describe inflation as too much money chasing too few goods. This may describe our current situation given the recent $1,400 stimulus payments provided to 85% of Americans and bottlenecks in the supply chain curtailing the amount of goods and services available for purchase. Indeed, the Federal Reserve said this week they expect inflation to surpass their 2% target in 2021 and reach 2.4%. At the same time, the Fed expects this to be a transitory increase in inflation as the economy re-opens. Inflation is expected to taper back toward the 2% target in 2022 and 2023 with the Federal Reserve committed to keeping interest rates near zero until 2024 given the high levels of unemployment.

Mr. Market will be watching interest rates carefully as the expected strong economic recovery takes hold in 2021. If he feels inflation is rising more than expected, he will demand higher interest rates. If interest rates were to rise in a “disorderly manner,” the Federal Reserve may have no choice but to react before 2024. While inflation has averaged 2% over the last 20 years thanks to globalization and the technology revolution, investors should keep a watchful eye on inflationary pressures. The best investments to own in an inflationary environment are high-quality businesses with pricing power and the ability to generate high returns on shareholders’ equity such as the ***HI***-quality companies that we own.

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For the second year in a row, the Internal Revenue Service is pushing back the deadline for filing federal tax returns. The new deadline for 2020 returns is May 17, 2021, instead of April 15, 2021. Estimated taxes are still due on April 15th.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President