



1-25-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 1-22-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	30,996.98	0.6%	+1.2%
S&P 500	3,841.47	1.9%	+2.3%
NASDAQ	13,543.06	4.2%	+5.1%

New weekly unemployment claims retreated slightly to 900,000 during the past week with continuing claims of 5.054 million for the week ended January 9, 2021. Nearly 16 million Americans were still receiving unemployment benefits of some kind, down by more than 2 million from the prior week. This included about 8.7 million claimants through the federal Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation programs.

Housing starts increased 5.8% in December to a seasonally adjusted annual rate of 1.669 million. That was the strongest pace of starts since September 2006. Building permits rose 4.5% to 1.709 million, which was the strongest pace since August 2006. The growth was driven entirely by single-unit dwellings.

Existing home sales increased 0.7% in December to a seasonally adjusted annual rate of 6.76 million. Total sales in December were up 22.2% from a year ago and overall sales for 2020 hit their highest level since 2006. The supply of existing homes is at an all-time low which will likely lead to higher prices and result in higher new home sales as evidenced above.

During the past holiday-shortened week, the stock market registered solid gains with the Dow rising 0.6%, the S&P 500 gaining 1.9% and NASDAQ jumping 4.2% in anticipation of strong technology earnings expected in the week ahead.

HI-Quality Company News



Intel-INTC reported fourth quarter revenues declined 1% to \$20 billion with net income dropping 15% to \$5.9 billion and EPS down 10% to \$1.42. For the full 2020 year, revenues rose 8% to a record \$77.9 billion with net income dipping 1% to \$20.9 billion and EPS up 5% to \$4.94. This was the fifth consecutive year of record revenues for Intel thanks to strong customer demand in the PC-centric business segment with fourth quarter PC unit growth up 33% led by record notebook sales. The company also achieved better-than-expected data-centric results, including record Mobileye revenues. Return on shareholders' equity for the year was a strong 25.8%, reflecting the underlying profitability of the business. Free cash flow increased 25% during the year to a record \$21.1 billion with the company repurchasing 274.6 million shares of its common stock for \$14.2 billion at a price of about \$51.71 per share while paying \$5.6 billion in dividends. Intel announced a 5% increase in the dividend for 2021 to an annualized rate of \$1.39 per share. For the first quarter of 2021, Intel is forecasting revenue of \$17.5 billion with an operating margin of 30% and EPS of \$1.10. These results reflect the exclusion of the NAND memory business due to its pending sale. The exit of the NAND and McAfee businesses are expected to generate approximately \$12 billion in proceeds.



UnitedHealth Group-UNH reported fourth quarter revenues rose 8% to \$65.5 billion with net income and EPS each declining 38% to \$2.2 billion and \$2.30, respectively, due to rising COVID-19 costs. For the full 2020 year, revenues rose 6% to \$257.1 billion, led by 21% revenue growth at Optum. Optum is expected to continue to generate double-digit growth in the years ahead due to the increase in the number of patients served and the range of healthcare services provided. UnitedHealth Group's net income increased a healthy 11% to \$15.4 billion with EPS up 12% to \$16.88 in 2020. Return on shareholders' equity for the full year was a wholesome 22.5%, reflecting the company's strong overall operating performance and efficient capital structure. Free cash flow increased 23% to \$20.1 billion with the company paying \$4.6 billion in dividends and repurchasing \$4.3 billion of its common shares during the year. The company affirmed its 2021 guidance for revenues approximating \$280 billion and net earnings of \$16.90 to \$17.40 per share, which includes about \$1.80 per share in potential unfavorable costs related to COVID-19. As healthcare normalizes, the company is entering 2021 with momentum and expects to emerge from this challenging time with a strong capital position which should enable continued dividend growth and share repurchases.



Fastenal-FAST reported fourth quarter revenues rose 6% to \$1.4 billion with net income and EPS each fastening on 10% gains to \$196.1 million and \$.34, respectively. For the full 2020 year, revenue rose 6% to \$5.6 billion with net income up 9% to \$859.1 million and EPS up 8% to \$1.49. Return on shareholders' equity for the year was an impressive 31.4%. Free cash flow increased a strong 57% during the year to \$933.7 million thanks to strong profits and working capital management. This enabled Fastenal to pay \$803.4 million in dividends, including a special \$.40 per share dividend paid in December, reflecting the company's high cash balances and favorable financial outlook. For 2021, Fastenal recently announced a 12% increase in its regular dividend to \$1.12 per share on an annualized basis. Fastenal is seeing improved industrial activity as the company exits 2020.



General Dynamics Information Technology (GDIT), a business unit of **General Dynamics-GD**, announced that it has been selected as one of three prime contractors on the U.S. Department of State's Global Support Strategy (GSS) 2.0 indefinite delivery, indefinite quantity contract vehicle (IDIQ). The IDIQ, awarded in fourth-quarter 2020, has a total estimated value of up to \$3.3 billion over a 10-year period. Under the contract, GDIT will deliver overseas consulate support services to the Bureau of Consular Affairs in support of visa application and issuance at U.S. embassies and consulates throughout the world.

In other news, GDIT announced it has been awarded the United States Army Europe (USAREUR) Enterprise Mission Information Technology Services (EMITS) task order by the General Services Administration (GSA). The task order, awarded in fourth-quarter 2020, has a total estimated value of \$695 million over a five-year period.



Walgreens-WBA has administered more than 1 million COVID-19 vaccinations across long-term care facilities and other vulnerable populations identified as part of state and jurisdiction distribution plans.

When searching for a **HI**-quality investment, we start by seeking businesses that consistently generate high returns on shareholders' equity. These high returns point us to businesses with durable competitive advantages whether it is a patent, a proprietary technology, strong brand, networking effect and/or being a low-cost provider. All these competitive advantages yield pricing power and market expansion opportunities. We have learned that companies which wisely invest their capital and reap superior returns on their investments generate solid long-term returns for investors. It is worth pointing out that the first three of our **HI**-quality companies that reported fourth quarter results this past week generated very high returns on shareholders' equity despite a challenging 2020 including UnitedHealthcare with a wholesome 22.5% return on equity, Intel with a strong 25.8% return and

Fastenal with an impressive 31.4% return on shareholders' equity. These results reflected the strong underlying profitability and efficient capital structures of all these firms. Not surprisingly, free cash flow generation was also extremely strong in 2020 with UnitedHealthcare's free cash flow increasing 23% to \$20.1 billion, Intel's free cash flow rising 25% to \$21.1 billion and Fastenal's free cash flow jumping 57% to \$933.7 million. Given the strong cash flows, Fastenal announced a 12% increase in its 2021 dividend with Intel chipping in a 5% dividend increase. We expect further strong results from our **HI**-quality companies that will be reporting earnings this week. Stay tuned!

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President