4-25-22

WEEKLY UPDATE

Market Performance

MARKET INDEX	CLOSE 4-22-22	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	33,811.40	-1.9%	-7.0%
S&P 500	4,271.78	-2.8%	-10.4%
NASDAQ	12,839.29	-3.8%	-17.9%

Inflation concerns and rising rates led to stock market declines during the past week with the Dow dropping 1.9%, the S&P 500 sliding 2.8% and the NASDAQ falling 3.8% lower.

Economic Releases
A summary of economic releases during the past week which may impact the financial markets:

The weekly initial unemployment claims report dropped slightly to 184,000 for the week ending April 16 reflecting the favorable employment environment. Continuing claims for the week ending April 9 decreased to 1.417 million, which is the lowest level since 1970.

Housing starts increased 0.3% in March to a seasonally adjusted annual rate of 1.793 million units while permits increased 0.4% month-over-month to a seasonally adjusted annual rate of 1.873 million. The increase was driven entirely by multi-unit activity. Starts for single-family homes and permits for single-family homes were down 1.7% and 4.8% month-over-month, respectively, reflecting the challenges builders are facing with supply chain issues, rising costs for land and labor, and rising mortgage rates which impact affordability for homebuyers.

Existing home sales decreased 2.7% month-over-month in March to a seasonally adjusted annual rate of 5.77 million. Total sales in March were down 4.5% from a year ago. The supply of available homes for sale remains extremely tight, yet higher mortgage rates and higher inflation are contributing to a slowdown in demand due to affordability pressures that are expected to persist. The median existing home price for all housing types increased 15.0% year-over-year to $375,300, representing the 121st consecutive month of year-over-year gains.

HI-Quality Company News
A summary of important earnings and/or capital allocation news announced during the past week from the high-quality companies held in most client portfolios. For new clients, these companies may become investment candidates as valuations appear attractive and cash is available:

Gentex-GNTX reported first quarter revenues dipped 3% to $468.3 million with net income skidding 23% lower to $87.5 million and EPS sliding 20% lower to $.37. Light vehicle production in the company's primary markets of North America, Europe and Japan/Korea declined by 11% because of the ongoing auto industry-wide component shortages and global supply chain constraints. Profits were impacted by raw material cost increases, elevated freight expenses, labor cost increases and ongoing customer order volatility. Despite the challenging first quarter, Gentex expects to see an improving sales environment over the balance of the year. **The company is in active discussions with their customers to minimize the impact of inflationary pressures on the businesses**

while introducing new innovative products. Free cash flow declined during the quarter due to the lower earnings and increased working capital needs. During the quarter, the company repurchased 2.44 million of its common shares for $71.3 million at an average price per share of $29 per share. The company has 22.4 million shares remaining authorized for future share repurchases. Gentex maintains a cash-rich, debt-free balance sheet which provides the company with financial flexibility during difficult times. For 2022, Gentex expects revenue in the range of $1.87 to $2.02 billion with revenue growth of 15%-20% expected in 2023 as the auto industry recovers. **Management expects record sales combined with a consistent and disciplined capital allocation strategy to result in excellent shareholder returns over the next several years.**

Genuine Parts – GPC reported record first sales that motored ahead 18.6% to $5.3 billion with net income increasing 13% to $246.8 million and EPS up 14.7% to $1.72. By segment, Automotive Parts sales increased 11% to $3.3 billion on a 10.3% increase in comparable sales while Industrials Parts sales increased 33.6% to $2.0 billion, reflecting a 17.9% contribution from the KDG acquisition and a 16% increase in comparable sales. **Despite much higher than anticipated inflation, segment operating profits increased 50 basis points to 8.6%, boosted by price increases, ongoing expense management and execution of operational initiatives to improve productivity.** During the quarter, Genuine Parts generated $398.8 million in operating cash flow and $320.8 million in free cash flow with the company returning $188.8 million to shareholders through dividend payments of $115.9 million and share repurchases of $72.9 million at an average cost per share of $128.07. **The company announced a 10% increase in the 2022 dividend to $3.58 per share, marking the 66th consecutive increase in the dividend that has been paid every year since the company's founding in 1928.** Genuine Parts ended the quarter with $610.8 million in cash and equivalents, $3.4 billion in long-term debt and $3.6 billion in shareholders' equity. Given the strong first quarter, Genuine Parts raised its 2022 guidance with sales now expected to increase in the 10% to 12% range, up from 9% to 11% previously guided, with EPS in the $7.56 to $7.71 range, up from $7.45 to $7.60 previously guided. Free cash flow is expected in the $1.2 billion to $1.4 billion range.

Tractor Supply-TSCO reported first quarter revenues grew 8.3% to $3.0 billion with net income up 3.2% to $187.2 million and EPS sprouting 6.5% higher to $1.65. Comparable store sales increased 5.2% in the first quarter driven by ticket growth of 6.7% and a decline in average transaction count of 1.4%. Comparable store sales growth was driven by robust demand for everyday merchandise, including consumable, usable and edible products and strength in winter seasonal goods, partially offset by a slower start to the spring selling season due to colder weather across the nation. The company's e-commerce sales experienced double-digit growth for the 39th consecutive quarter. **The company's price management actions helped offset the majority of the impact from significant product cost inflation, wage inflation and higher transportation costs.** The company spent $112 million on capital expenditures during the quarter, **paid dividends of $103.5 million and repurchased 1.4 million shares of its common stock for $296.2 million at an average price per share of $211.57.** While new store openings were delayed in the first quarter due to the lingering impact of the pandemic and challenges facing the construction industry, the company is still targeting opening about 75-80 new Tractor Supply stores in 2022. While Tractor Supply handily beat first quarter expectations, management is prudently maintaining its full year outlook due to the uncertain inflation outlook with revenues expected in the $13.6 billion to $13.8 billion range, driven by 3% to 4.5% comparable store sales growth and EPS expected in the $9.20-$9.50 range.

SEI Investments-SEIC reported first quarter revenues increased 28% to $581.4 million with net income increasing 47% to $190.3 million and EPS up 53% to $1.36. First quarter results include a one-time fee related to

the early termination of HSBC's agreement which added $88 million to revenues and $86 million, or $0.47 per share, to earnings. Excluding the termination fee, revenues increased 8.3% and EPS were flat. **Average assets under administration increased 9% from last year to $893.4 billion and average assets under management increased 5% to $293.6 billion.** Operating expenses increased 13.6% from last year due to increased direct costs related to the revenue increase and increased personnel costs in a competitive labor market. During the quarter, SEI Investments generated $260.4 million in free cash flow, or $1.86 per share, and free cash flow of $244.6 million. The company repurchased 1.7 million shares during the quarter for $100.1 million, or $58.43 per share. The company ended the quarter with $907.8 million in cash and equivalents, $30 million in debt and $1.97 billion in shareholders' equity on its pristine balance sheet. During the earnings call, SEI announced that after 41 years since the company went public and 164 quarterly earnings calls, Al West, founder and CEO, is handing over the reins to Ryan Hicke who has worked at SEI for 24 years, including twelve years launching new businesses overseas for the company.

Johnson & Johnson

Johnson & Johnson-JNJ reported first quarter revenues increased 5% to $23.4 billion with net earnings and EPS each down 17% to $5.1 billion and $1.93, respectively. Net earnings were down primarily due to an increase in cost of goods sold, marketing expenses and research and development. Worldwide Pharmaceutical sales increased 6% to $12.8 billion driven by above-market performance in Oncology, Immunology and Neuroscience. Sales increased 5.9% in Medical Devices to $6.9 billion with growth driven by COVID-19 market recovery, market expansion and innovation. Worldwide Consumer Health Sales decreased 1.5% to $3.5 billion due to supply constraints in Skin Health/Beauty and Baby care. These declines were partly offset by a 15% increase in over-the-counter products. **During the quarter, the company generated approximately $3.4 billion in free cash flow, invested $3.5 billion in research and development to advance its promising pipeline and paid $2.8 billion in dividends to shareholders.** The company is maintaining 2022 full-year guidance for adjusted operational EPS and base business operational sales. Given foreign exchange headwinds, JNJ lowered guidance for estimated reported sales to $94.8 billion to $95.8 billion, representing a 3.8% to 4.8% increase over the prior year. Adjusted EPS for 2022 is expected in the range of $10.15 to $10.35, a 3.6% to 5.6% increase over the prior year.

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The markets continued to decline last week as mostly positive earnings reports failed to ease concerns over inflationary pressures and rising interest rates. The Federal Reserve is expected to raise interest rates 50 basis points at the May meeting with further rate increases expected over the balance of the year to combat persistent inflation. Despite high inflation, our ***HI***-quality companies are doing a good job in helping to offset inflationary pressures through price increases, good expense management and improved productivity. Through these measures, **Genuine Parts** increased its operating margins during the past quarter while also increasing its dividend an inflation-beating 10%. Genuine Parts has paid a dividend every year since 1928 and increased the dividend for 66 consecutive years, a track record few other companies can match. This week will be a busy week for earnings reports. Stay tuned!

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot, CFA
President