



5-17-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 5-14-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,382.13	-1.1%	+12.3%
S&P 500	4,173.85	-1.4%	+11.1%
NASDAQ	13,429.98	-2.3%	+4.2%

Initial unemployment claims dropped more than expected to a fresh pandemic-era low of 473,000, as more vaccinated Americans return to work and in-person activities. Continuing claims for the week ended May 1 came in at 3.655 million. Weekly jobless claims have been cut nearly in half since the start of 2021 and have fallen sharply from the pandemic-era high of more than 6 million last year.

Total CPI increased 0.8% month-over-month in April while core CPI, which excludes food and energy, surged 0.9% month-over-month, driven by a 10.0% increase in used car prices. That was the largest monthly increase in core CPI since April 1982. On a year-over-year basis, total CPI was up 4.2% -- the largest 12-month increase since September 2008 -- and core CPI was up 3.0% versus 1.6% for the 12 months ending in March. It remains to be seen if these inflation numbers are transitory or not.

The PPI for final demand increased 0.6% month-over-month while the index for final demand, less food and energy ("core PPI"), increased 0.7% month-over-month. That left the year-over-year increases at 6.2% and 4.1%, respectively. Producer prices like consumer prices reflect inflation. The price pressures for producers threatens profit margin expansion if they are not passed along to customers.

Total retail sales were flat month-over-month in April following an upwardly revised 10.7% increase in March. The "weakness" in April was really driven by a tough sequential comparison. With hiring activity increasing, wages will likely also increase. This, combined with a huge amount of personal savings, should lead to increased retail spending in the coming months.

Total industrial production increased 0.7% in April following an upwardly revised 2.4% increase in March. The capacity utilization rate increased to 74.9%. Industrial production is humming at a solid clip, although it would be stronger if not for the semiconductor supply shortage that is holding back motor vehicle production.

The preliminary May reading for the University of Michigan Index of Consumer Sentiment dropped to 82.8 from the final reading of 88.3 for April as consumers worried about inflation. Inflation expectations rose to 3.1%, the highest expected long-term inflation rate in the last ten years.

During the past week, Mr. Market also fretted about inflation amid a volatile week with the Dow declining 1.1%, the S&P 500 dropping 1.4% and the NASDAQ falling 2.3%.



Canadian National Railway-CNI announced that it submitted an enhanced binding superior proposal and merger agreement to the Kansas City Southern (KSU) Board of Directors. The KCS Board has determined CN's proposal to be a "Company Superior Proposal" and has announced its intention to terminate the previously executed March 21, 2021 merger agreement with Canadian Pacific Railway Limited (CP). CN looks forward to promptly entering into a definitive merger agreement with KCS to create the premier railway for the 21st century. CN's proposal offers KCS shareholders \$325 per common share, which implies a total enterprise value of \$33.6 billion, including the assumption of approximately \$3.8 billion of KCS debt. Under the terms of CN's revised proposal, KCS shareholders will receive \$200 in cash and 1.129 shares of CN common stock for each KCS common share, with KCS shareholders expected to own 12.6% of the combined company. Under the terms of the revised proposal, a wholly owned subsidiary of CN has also agreed to reimburse \$700 million to KCS in connection with their payment of the termination fee to CP under the merger agreement with CP. The completion of the transaction is expected to take place in the second half of 2022.



T. Rowe Price Group-TROW reported preliminary month-end assets under management of \$1.59 trillion as of April 30, 2021, representing an 8.4% increase since year end.

Alphabet

Alphabet-GOOG announced that its cloud unit has won a deal to supply computing and networking resources to Elon Musk's SpaceX to help deliver internet service through the latter's Starlink satellites. The Starlink satellite internet will rely on Google's private fiber-optic network to quickly make connections to cloud services as part of a deal that could last seven years.

The logo for Oracle, featuring the word 'ORACLE' in white capital letters on a red rectangular background.

To support growing customer demand for cloud services in Brazil, **Oracle-ORCL** announced the opening of the Vinhedo Cloud region. This follows the launch of its São Paulo Cloud region last year, making Brazil Oracle's latest country offering dual cloud regions. The opening marks Oracle's 30th Cloud region worldwide and is part of Oracle's global plan to operate 38 Cloud regions by the end of 2021.

The logo for Regeneron, featuring the word 'REGENERON' in white capital letters on a blue rectangular background.

Regeneron-REGN and Sanofi presented "positive" Phase 3 Libtayo results in advanced cervical cancer. The data adds to previously reported data showing an improvement in overall survival with Libtayo compared to chemotherapy. "In this Phase 3 trial, Libtayo demonstrated a significant improvement in overall survival in women with advanced cervical cancer after progression on chemotherapy, reducing the risk of death by 31% compared to chemotherapy in the overall population," said Krishnansu S. Tewari, M.D., Professor and Director of the Division of Gynecologic Oncology at the University of California, Irvine and a trial investigator. "Improvements in progression-free survival and objective response rate were also demonstrated in the overall population compared to chemotherapy. Taken together, this landmark trial -- which enrolled patients regardless of PD-L1 expression status -- helps support the use of Libtayo as a potential new second-line treatment for women with advanced cervical cancer who face a poor prognosis and limited treatment options."

Inflation jitters abound. Most of our *HI*-quality companies discussed the inflation they were experiencing during the first quarter conference calls due to the sharp economic recovery increasing demand along with supply-chain constraints.

At the recent annual meeting, this is what Warren Buffett, chairman of Berkshire Hathaway, said about inflation, “We’re seeing very substantial inflation – it’s very interesting. I mean, we’re raising prices. People are raising prices to us. And it’s being accepted. The costs are just up, up, up. Steel costs, you know, just every day, they’re going up. But there’s more inflation going on than – quite a bit more inflation going on than people would have anticipated just six months ago or thereabouts.”

In the past, Buffett had this to say about inflation: “Inflation acts as a gigantic corporate tapeworm. That tapeworm preemptively consumes its requisite daily diet of investment dollars regardless of the health of the host organism. Whatever the level of reported profits (even if nil), more dollars for receivables, inventory and fixed assets are continuously required by the business in order to merely match the unit volume of the previous year. The less prosperous the enterprise, the greater the proportion of available sustenance claimed by the tapeworm. The tapeworm of inflation simply cleans the plate.”

During inflationary periods, Buffett advised investors to focus on companies with pricing power and “that generate rather than consume cash,” which describes most of our *HI*-quality companies. Because of strong cash flows, our *HI*-quality businesses have also historically increased dividends at rates well in excess of inflation, preserving the purchasing power of long-term shareholders.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President