Hendershot
INVESTMENTS

11-8-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 11-5-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	36,327.95	+1.4%	+18.7%
S&P 500	4,697.53	+2.0%	+25.1%
NASDAQ	15,971.59	+3.1%	+23.9%

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For the week ending October 30, initial jobless claims declined by 14,000 to 269,000, while continuing claims for the week ending October 23 decreased by 134,000 to 2.105 million with the labor market still posting bountiful job openings.

U.S. employers increased their pace of hiring in October with payrolls up 531,000 and the unemployment rate declining to 4.6% thanks to declining COVID-19 infections and increased demand for workers. Average hourly earnings increased 0.4% in October and 4.9% year-over-year. Leisure and hospitality employers saw an especially pronounced boost in hiring in October as concerns over the Delta variant receded and enabled more service employees to return to work. Though payrolls have grown in every month so far in 2021, the economy remains more than four million jobs short of its pre-pandemic levels. Despite improving trends, labor shortages remain a challenge for most companies.

The labor market data is important in influencing the Federal Reserve's moves on monetary policy. Federal Reserve Chair Jerome Powell said during the past week, "There is still ground to cover to reach maximum employment both in terms of employment and in terms of participation." He added that it is "within the realm of possibility" that the economy achieves maximum employment by the second half of next year, as measured by a broad range of metrics.

Third quarter productivity decreased 5.0% which was the lowest level of productivity since the second quarter of 1981. Unit labor costs surged at an annual rate of 8.3%, reflecting labor cost pressures.

The October ISM Manufacturing Index was 60.8% and marked the 17th straight month of expansion for the manufacturing sector. Demand is strong, but manufacturers and suppliers continue to struggle to meet increasing demand levels due to record-long raw material lead times, shortages of basic materials, transportation difficulties, worker absenteeism, and difficulty filling positions.

The ISM Non-Manufacturing Index for October increased to a record high 66.7%, also marking the 17th straight month of growth for the services sector. Demand shows no signs of slowing and services sector activity is running at a record pace even with the constraints of labor shortages, logistics problems, and difficulty in obtaining materials.

Consumer credit increased by $29.9 billion in September, marking the eighth consecutive month of expansion, reflecting continued demand for goods and services.

Total construction spending declined 0.5% month-over-month in September. On a year-over-year basis, total construction spending was up 7.8%. The continued decline seen in new single family and multifamily construction is due to ongoing supply chain pressures and higher costs for builders that are standing in the way of building more affordable homes.

During the past week, the major indices steadily marched higher to set new all-time records with the S&P 500 rising 2.0%, the NASDAQ jumping 3.1% and the Dow gaining 1.4% and surpassing the 36,000 milestone. Mr. Market cheered the strong jobs report and the news of a highly effective COVID-19 pill.

HI-Quality Company News

Regeneron-REGN reported third quarter revenues increased a healthy 51% to $3.45 billion with net income and EPS increasing 94% to $1.6 billion and $14.33 per share, respectively. Top and bottom-line growth were driven by an increasingly diversified core business. With over 30 product candidates in clinical development, Regeneron is well-positioned for future profitable growth. By product line, EYLEA extended its leadership during the third quarter with sales up 15% to $2.4 billion. Despite new competition, EYLEA remains the number one prescribed anti-VEGF treatment for retinal diseases with 40 million plus doses administered globally since launch. Worldwide Dupixent sales, which are recorded by Sanofi, jumped 55% to $1.66 billion with broad-based growth across all approved indications. Advancing clinical development across eight Type 2 diseases provide significant market opportunities to secure Dupixent's future growth. Sales of REGEN-COV, the first COVID-19 combination antibody therapy to receive emergency use authorization (EUA), increased to $1.2 billion, up from $40.2 million last year. During the quarter, Regeneron secured a new U.S. government supply agreement for an additional 1.4 million doses of the COVID therapy, a lifeline for people who are immuno-compromised. Sales of Libtayo, Regeneron's immunotherapy cancer treatment currently approved for non-small cell lung cancer, basal cell carcinoma and advanced CSSC, increased 24% to $119.5 million. Regeneron's clinical development pipeline of 12+ candidates has the potential to address unmet needs surrounding the most prevalent cancer types. Year-to-date, the company generated $4.3 billion in free cash flow, up from $934 million last year, reflecting the collection of receivables from the U.S. government in connection with REGEN-COV sales. During the first three quarters of 2021, Regeneron returned $612.1 million to shareholders through share repurchases, including $191 million during the third quarter. Regeneron ended the quarter with $11.4 billion in cash, $2.0 billion in long-term debt and $17.3 billion in shareholders' equity on its healthy balance sheet. During the quarterly earnings conference call, management was asked how discussions on Capitol Hill are expected to impact its business prompting the CEO to express how surprised he was that the industry most responsible for pulling the world out from under COVID is under such attack from legislators. Luckily, according to Leonard Schleifer, M.D., Ph.D and Regeneron CEO, "The most draconian ideas were written in disappearing ink."

Booking Holdings-BKNG booked a 77% increase in third quarter revenues to $4.7 billion with net earnings and EPS decreasing 4% to $769 million and $18.60, respectively. Adjusting for changes in unrealized gains and losses on investments and goodwill charges, earnings more than tripled during the third quarter. Gross bookings soared 77% to $23.7 billion with the company booking 183 million room nights, up 44% year-over-year, primarily driven by better results in Europe. The company saw further improvement in room night trends in October, including in Asia. However, rising virus cases in Asian countries is adding uncertainty. The company's results have been materially and negatively impacted due to the COVID-19 pandemic and the resulting economic conditions and government restrictions on travel. Year-to-date as travel has resumed, Booking Holdings generated $2.5 billion in cash flow from operations and $2.3 billion in free cash flow which was up substantially from last year. Booking is using the strong cash flow to pay down debt taken on during the pandemic to tidy up its balance sheet. Booking Holdings ended the quarter with $15.4 billion in cash and investments and $9.9 billion in long-term debt on its sturdy balance sheet.

Berkshire Hathaway-BRKB reported the company's net worth during the first nine months of 2021 increased 6.6%, or $29.3 billion, to $472.5 billion with book value equal to about $316,463 per Class A share as of 9/30/21. Berkshire earned $10.3 billion in the third quarter, including $6.5 billion of operating earnings and $3.9 billion of investments and derivatives gains.

Berkshire's four major equity investment holdings represent 70% of total equities, including American Express at $25.4 billion (which charged 39% higher during the first nine months or $7.1 billion), Apple at $128.4 billion (which gained 7% in the first nine months or $8.0 billion), Bank of America at $43.9 billion (which deposited a 40% gain in value through 9/30/21 or $12.6 billion), and Coca-Cola at $21.0 billion (fizzling down 4% or $900 million since year end).

Berkshire's revenues increased 12% during the third quarter to $70.7 billion with operating earnings rising 18% to $6.5 billion as many of Berkshire's businesses experienced a significant recovery in revenues and earnings following the pandemic. While some businesses have exceeded pre-pandemic levels in revenues and earnings, other businesses have been negatively impacted by ongoing global supply chain disruptions and Hurricane Ida.

During the third quarter, Berkshire's insurance underwriting produced after-tax losses of $784 million which included significant catastrophe losses resulting from Hurricane Ida and floods in Europe, which approximated $1.7 billion. Underwriting results in 2021 also reflected the effects of the premium reductions from the GEICO Giveback program, higher private passenger automobile claims frequencies as people began to drive more following the pandemic and higher losses in the life reinsurance business due to the pandemic. Insurance investment income rose 14% during the third quarter to $1.2 billion, reflecting higher dividend income and a lower tax rate. Berkshire expects prevailing low interest rates to negatively affect earnings from fixed-income investments for the remainder of 2021. The float of the insurance operations approximated $145 billion as of 9/30/21, an increase of $7 billion since year end 2020. The average cost of float was negative during the first nine months of 2021 as the underwriting operations generated earnings of $356 million.

Burlington Northern Santa Fe's (BNSF) revenues chugged 12% higher during the third quarter to $5.6 billion with net earnings rolling 14% higher to $1.5 billion reflecting overall higher freight volumes and lower costs due to improved productivity, partly offset by higher average fuel costs. Volume was up 4% during the quarter driven by a 14% gain in volume in industrial products, due to improvements in the construction and building sectors, and a 12% gain in volume in coal attributable to increased electricity generation, higher natural gas prices and improved export demand.

Berkshire Hathaway Energy reported revenues charged ahead 13% during the third quarter to $7.0 billion. Net earnings rose 7% during the quarter to $1.5 billion reflecting increased earnings from all the energy business units. However, the real estate brokerage business, included in this business segment due to an acquisition, reported earnings declined 42% during the quarter to $102 million due to a decrease in refinancing activity.

Berkshire's Manufacturing businesses reported third quarter revenues rose 15% to $17.5 billion with operating earnings up 8% to $2.4 billion. The Industrial Products segment led the way in this segment with revenues rising 17% and operating earnings gaining 20% from the prior year third quarter. Double-digit growth in revenues and earnings was generated by Marmon and IMC thanks to higher customer demand, improved manufacturing efficiencies and good operating cost management. The Building Products segment reported 12% growth in revenues but only a 1% increase in earnings due to persistent supply chain disruptions which limited sales and contributed to production delays and significant cost increases. Consumer Products revenues jumped 18% with pre-tax earnings relatively flat as strong growth at Forest River driven by a 38% year-to-date increase in unit sales of recreational vehicles was offset by lower earnings from Duracell and the apparel and footwear businesses.

Service and Retailing revenues increased 10% during the third quarter to $21.3 billion with pre-tax earnings up 26% to $1.1 billion. Service group revenue increased 35% with pre-tax earnings up 48% thanks to strong growth from TTI, reflecting accelerating demand across all electronic component markets, and the aviation business services due to higher training hours at FlightSafety and significantly higher customer flight hours at NetJets. Thanks to strong demand for home furnishings and new and pre-owned vehicle sales at Berkshire Hathaway

Automotive, retailing operations reported an 8% increase in sales and a 34% jump in earnings during the third quarter. McLane's revenues increased 5% during the quarter with the company reporting a slight loss due to higher personnel costs and fuel expenses. McLane's operations have been adversely impacted by supply chain disruptions, including shortages of truck drivers, which is affecting inventory and customer deliveries.

Berkshire's balance sheet continues to reflect very significant liquidity and a very strong capital base of $472.5 billion as of 9/30/21. Excluding railroad, energy and utility investments, Berkshire ended the third quarter with $489.9 billion in investments allocated approximately 63.4% to equities ($310.8 billion), 3.7% to fixed-income investments ($18.1 billion), 3.4% to equity method investments ($16.7 billion), and 29.5% in cash and equivalents ($144.4 billion).

Free cash flow rose 14% during the first nine months of 2021 to $22.4 billion. During the first nine months, capital expenditures approximated $9.2 billion. Berkshire expects capital expenditures for the remainder of 2021 to approximate an additional $3.1 billion for BNSF and Berkshire Hathaway Energy. During the first nine months, Berkshire sold or redeemed a net $12.8 billion in Treasury Bills and fixed-income investments and sold a net $7.0 billion of equity securities, including Wells Fargo.

Berkshire repurchases its shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. During the first nine months, Berkshire repurchased $20.2 billion of its common stock including $7.6 billion in the third quarter. These repurchases included 9,580,995 Class B shares acquired at an average price of $277.74 per share and 1,323 Class A shares purchased at an average price of $419,237 per share during September 2021. After quarter end, it appears Berkshire has acquired about $1.8 billion in additional shares of its common stock based on its lower share count as of 10/27/21 as reported on a regulatory filing.

Roche Holdings-RHHBY announced it will repurchase 53.3 million Roche shares held by Novartis. The aggregate transaction value is approximately CHF 19 billion ($20.7 billion) and will be debt-financed. All shareholders of Roche benefit from the earnings accretion resulting from the transaction. The percentage of shares held by the public (so-called "free float") will increase from currently 16.6% to 24.9% with the cancellation of the equity stake held by Novartis. This will allow the shares to be included in the Swiss Performance Index (SPI) and possibly in other indices. Roche confirms the outlook for the full year and expects a mid-single-digit sales growth at constant exchange rates. Core EPS growth at constant exchange rates is targeted to be broadly in line with sales growth. Furthermore, Roche is aiming at increasing the dividend in Swiss francs also for 2021.

NVR, Inc.-NVR announced that its Board of Directors has authorized the repurchase of $500 million of its outstanding common stock.

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Dow 36,000

With the Dow topping 36,000 for the first time, it brought back memories of the best-selling book written by journalist James Glassman and economist Kevin Hassett titled *Dow 36,000*. In the book published on Oct. 1, 1999, the authors explained that stocks were not overvalued with the Dow trading around 10,273, even though the Dow had jumped more than 200% over the previous five years during the dot-com bubble and was at record highs amid "irrational exuberance." Nevertheless, Glassman and Hassett indicated the Dow could approach

36,000 within three to five years, which is where their analysis went awry. As the old saying goes about market predictions: Forecast a number or date, but never both.

While it took a bit longer for the Dow to top 36,000— like more than 22 years— this still represented about a 6% compounded annual growth rate for the Dow despite the substantial market downturns associated with the subsequent dot-com bust, 9/11, the Great Recession and the COVID-19 pandemic. Thus, the underlying message of the book—that a buy-and-hold diversified portfolio of stocks is the best bet for investors over the long term—has stood the test of time.

While today the Dow is once again trading at record highs with plenty of pockets of speculation from meme stocks to SPACs, don't be surprised when the Dow tops 72,000 despite future market corrections and bear markets. (Notice I did not give a timeframe, although my guesstimate would be in about a decade.) As Warren Buffett, chairman of Berkshire Hathaway said 20 years ago and again even more recently, "There is no reason to think of stocks as generally overvalued as long as interest rates remain low, and businesses continue to operate as profitably as they have in recent years." By the way, on Oct. 1, 1999, Berkshire Hathaway's A shares closed at $55,400 per share. With the stock trading around $434,000 per share today, Berkshire's compounded annual return over the last 22 years is about 10%, providing a significantly higher return than the overall market. We expect Berkshire's future outperformance will continue over the next decade thanks to its diversified and well-managed operations generating significant cash flows.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

President