3-8-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 3-5-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	31,496.30	+1.8%	+2.9%
S&P 500	3,841.94	+0.8%	+2.3%
NASDAQ	12,920.15	-2.1%	+0.2%

Initial jobless claims edged up slightly last week to 745,000 with continuing claims for the week ended February 20 coming in at 4.295 million. The stabilization of jobless claims below 750,000 suggests unemployment trends are improving. However, jobless claims remain multiples above levels from before the COVID-19 pandemic, when new claims were averaging just over 200,000 per week. Returning to pre-pandemic levels of employment is likely to depend heavily on the pace of business re-openings and consumers' willingness to return to service-centric activities.

In February, the U.S. economy added back 379,000 jobs, the most jobs in four months as easing COVID-19 case counts and a ramping vaccine rollout allowed distancing restrictions to begin to moderate. The unemployment rate improved to 6.2%, which is significantly less than the pandemic high of 14.8% but still well above the 50-year low of 3.5% from a year ago.

Over the weekend, Congress worked out the final details of a $1.9 trillion fiscal stimulus bill, which will include $1,400 checks per person for 85% of American households. Other provisions in the bill include additional $300 weekly jobless benefits through September 6, a child allowance of up to $3,600 per family, $350 billion in aid to state and local governments and $14 billion for vaccine distribution.

Total construction spending increased 1.7% in January driven by gains in both private and public construction spending.

The ISM Manufacturing Index for February jumped to 60.8% from 58.7% in January, matching the August 2018 reading as the highest since May 2004. February was the ninth straight month of expansionary activity. All 18 industries in the index reported paying higher prices for raw materials in February, which contributed to the Prices Index hitting its highest level since May 2008, fueling concerns about inflation.

During the past week, Federal Reserve Chairman, Jerome Powell, indicated interest rates are likely to stay near-zero for some time, even if inflationary pressures may indicate rates should rise. Powell did say that the bond market movement in recent weeks has caught his eye as interest rates have risen with the 10-year U.S. Treasury bond closing last week at 1.55%. However, Powell noted that the U.S. is a long way from a strong labor market whose benefits are broadly shared and added that “a patiently accommodative monetary-policy stance” is needed to help the economy recover its job losses.”

During the past volatile week, the stock market posted mixed results with the Dow jumping 1.8%, the S&P 500 rising 0.8% and the NASDAQ declining 2.1% as there was continued sector rotation out of highly-valued technology stocks into more reasonably-valued cyclical stocks which will benefit from the economy reopening.

HI-Quality Company News

BROWN-FORMAN

Brown-Forman-BFB reported third quarter revenues rose 1% to $911 million with net income and EPS each down 5% to $219 million and $.45, respectively. Year-to-date underlying sales growth of 2% was driven by Jack Daniel's Ready-to-Drinks (RTDs), the continued international launch of Jack Daniel's Tennessee Apple and broad-based growth from Jack Daniel's Tennessee Honey and Gentleman Jack. The company's premium bourbons, led by Woodford Reserve and Old Forrester, maintained double-digit underlying net sales growth with growth in the tequila brands primarily driven higher by New Mix in Mexico. Year-to-date free cash flow increased 25% to $531 million, reflecting lower working capital requirements with the company paying $253 million in dividends. **Brown-Forman has paid cash dividends for 76 consecutive years with the dividend increased each year for the last 37 years.** During the quarter, the company approved a $125 million capital investment to expand bourbon making capacity in Kentucky to meet anticipated future consumer demand. While near-term uncertainty remains due to the pandemic, the company is optimistic for the remainder of fiscal 2021 and beyond thanks to strong business and financial fundamentals.

ROSS DRESS FOR LESS

Ross Stores-ROST reported fourth quarter revenues declined 4% to $4.2 billion with net income and EPS each dropping 48% to $238 million and $.67, respectively. Comparable store sales declined 6% during the quarter, reflecting the negative impact from the upsurge of COVID-19 during the peak holiday season. Lower traffic was incurred especially in California, the company's largest state of operations, due to more stringent occupancy and operating hour restrictions. For the full fiscal year 2020, revenues declined 22% to $12.5 billion with earnings and EPS each down 95% to $85.4 million and $.24, respectively. Free cash flow increased 14% during the year to $1.8 billion with the company paying $101 million in dividends and repurchasing $177.7 million of its common shares. **Ross Stores reinstated its quarterly dividend at a rate of $.285 per share reflecting the company's strong cash position and management's confidence in the company's long-term prospects.** For the first quarter of fiscal 2021, the company expects comparable store sales to be down 1% to down 5% compared to fiscal 2019, which management believes is a more relevant comparison given the extended closures in fiscal 2020 due to the pandemic. During the first quarter, EPS is expected in the range of $.74 to $.86, reflecting the deleveraging effect from the decline in comparable store sales, increased supply chain costs, higher wages and ongoing COVID-19 related expenses. With the continued rollout of vaccines, additional government stimulus and likely pent-up demand, Ross Stores expects comparable store sales to strengthen as they move though the year. However, earnings will continue to be affected by cost pressures and thus profitability is expected to be well below recent historical high levels. In fiscal 2021, the company expects to open 60 new locations consisting of 40 Ross Stores and 20 dd Discounts stores. Capital expenditures should approximate $700 million in 2021.

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway-BRKB reported the company's net worth during 2020 increased 4% or $18.4 billion to $443.2 billion with book value equal to $287,031 per Class A share as of 12/31/20. Berkshire earned $42.5 billion in 2020, including $21.9 billion of operating earnings, $4.9 billion of realized capital gains, a $26.7 billion gain from an increase in the amount of net unrealized capital gains and an $11 billion loss from a write-down in the value of a few businesses, notably a $9.8 billion impairment charge related to Precision Castparts.

Berkshire's four major equity investment holdings represent 68% of total equities, including American Express at $18.3 billion (down 3% in 2020 or $600 million), Apple at $120.4 billion (up 63% in 2020 or $46.7 billion), Bank of America at $31.3 billion (down 6% in 2020 or $2.1 billion), and Coca-Cola at $21.9 billion (down 1% or $200 million).

Berkshire's revenues declined 4% during 2020 to $245.5 billion with operating earnings down 9% to $21.9 billion due to the adverse impact of the pandemic on operations especially in the manufacturing, service and retailing businesses. As the economy began to reopen in the second half of the year, these businesses experienced significant sequential increases in revenue and earnings as compared to the second quarter.

During 2020, Berkshire's insurance underwriting generated $657 million in profits compared to $325 million in profits during 2019. Underwriting earnings from primary insurance offset underwriting losses from reinsurance. Underwriting results in 2020 reflected the effects of the pandemic, arising from premium reductions from the GEICO Giveback program, reduced claims for private passenger automobile insurance and increased loss estimates for certain commercial insurance and property and casualty reinsurance business. Insurance investment income declined 9% during the year to $5.0 billion, reflecting the significant decline in interest rates, resulting in lower interest income on substantial holdings of cash and U.S. Treasury Bills. Berkshire expects interest rates, which are historically low, to remain low. This will negatively affect earnings from fixed-income investments in 2021. As Buffett noted in the annual report, with interest rates so low, bonds are not the place to be these days. Fixed-income investors worldwide face a bleak future. Dividend income increased 8% during the year due primarily to preferred dividends from the $10 billion investment in Occidental Petroleum. The float of the insurance operations approximated $138 billion as of 12/31/2020, an increase of $9 billion since year end 2019. The average cost of float was negative during 2020 as the underwriting operations generated pre-tax earnings of $838 million. This massive amount of float is expected to remain near its present level for many years.

Burlington Northern Santa Fe's (BNSF) revenues declined 11% during 2020 to $20.2 billion with net earnings declining 6% to $5.2 billion reflecting the negative impact on volumes of the COVID-19 pandemic through the first half of the year. Volume was down at double-digit rates for industrial products and coal while agricultural products volume was up 4% for the year. Volumes sequentially improved and recovered overall to pre-pandemic levels by the end of the year. BNSF is an important part of the national and global supply chain. As an essential business, BNSF has continued to operate throughout the duration of the pandemic. However, the pandemic caused significant economic disruptions that adversely affected the demand for BNSF's services. Berkshire believes BNSF's fundamental business remains strong and has ample liquidity to continue business operations during this volatile period.

Berkshire Hathaway Energy reported revenues charged ahead 5% during 2020 to $21.0 billion. Net earnings rose 9% during the quarter to $3.1 billion reflecting increased tax benefits from renewable energy and increased earnings from the real estate brokerage business.

Berkshire's Manufacturing businesses reported 2020 revenues declined 6% to $59.1 billion with operating earnings down 16% to $8.0 billion. The Industrial Products segment was especially hard hit with revenues down 16% and operating earnings plummeting 33%. Precision Castparts experienced lower sales across all its major markets due to the decline in aerospace sales related to the suspension of Boeing's 737 Max aircraft and significant declines in the aerospace markets. The COVID-19 pandemic produced material declines in commercial air travel. Airlines responded by reducing and/or cancelling aircraft orders, which adversely impacted Precision Castparts' business. The company is aggressively restructuring operations in response to the reduced volumes in the aerospace markets and reduced its workforce 40%. While restructuring actions are expected to contribute to improved margins in the future, Berkshire believes the effect of the pandemic on commercial airlines and aircraft manufacturers continues to be particularly severe. The level of aircraft production is currently expected to slowly increase beginning in the latter half of 2021. Berkshire took a non-cash $9.8 billion goodwill impairment charge related to Precision Castparts during the second quarter. Buffett acknowledged that he overpaid for Precision Castparts as he was too optimistic about the normalized profit potential of the company. Marmon and IMC also each reported a double-digit decline in pre-tax earnings during the year due to the pandemic. On a more positive note, both Building and Consumer products generated sales and earnings growth during the year thanks to growth at Clayton Homes, Forest River and Duracell.

Service and Retailing revenues declined 6% during the year to $75.0 billion with pre-tax earnings up 1% to $2.9 billion. The spread of COVID-19 had a significant negative impact on NetJets and FlightSafety operations due to lower demand for aviation services due to the pandemic. Thanks to strong demand for home furnishings along with lower costs at Berkshire Hathaway Automotive, Retailing operations reported increases in sales and earnings as stores reopened. McLane's revenues decreased 7% during the year to $46.8 billion with pre-tax earnings declining 13% to $251 million reflecting an intensely competitive business environment which is expected to continue.

Berkshire's balance sheet continues to reflect very significant liquidity and a very strong capital base of $443.2 billion as of 12/31/20, an increase of $18.4 billion during the year. Excluding railroad, energy and utility investments, Berkshire ended the year with $453.9 billion in investments allocated approximately 61.9% to equities ($281.2 billion), 4.5% to fixed-income investments ($20.4 billion), 3.8% to equity method investments ($17.3 billion), and 29.8% in cash and equivalents ($135.0 billion).

Free cash flow rose 18% during 2020 to $26.8 billion. During the year, capital expenditures declined 19% to $13.0 billion, including $9.8 billion in the capital-intensive railroad, utilities and energy businesses. Berkshire expects capital expenditures in 2021 to also approximate $9.8 billion for BNSF and Berkshire Hathaway Energy. During the year, Berkshire purchased a net $26.8 billion in Treasury Bills and fixed-income investments and sold a net $8.6 billion of equity securities, including the sale of all its airline investments, a sharp reduction in the Wells Fargo investment and the sale of several other bank investments. During the year, Berkshire invested $6 billion in five Japanese trading companies; more than $4 billion in a group of pharmaceutical stocks, including Merck and AbbVie; $4 billion in Chevron; and $8.7 billion in Verizon while adding several billion to the Bank of America investment. In July 2020, Berkshire Hathaway Energy reached an agreement with Dominion Energy to acquire substantially all of Dominion's natural gas transmission and storage business. In connection with this transaction, on November 1, 2020, Berkshire paid $2.7 billion in cash and assumed $5.3 billion of Dominion debt. The acquisition of the remainder of the Dominion businesses is expected to close in early 2021. Smaller bolt-on acquisitions of $130 million were also made in 2020.

Berkshire revised its buyback policy which now permits Berkshire to repurchase shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. **During 2020, Berkshire repurchased a record $24.7 billion of its common stock.** The share repurchases increased shareholders' ownership in all of Berkshire's businesses by 5.2%. These repurchases included 12,605,335 Class B shares acquired at an average price of $225.73 per share and 1,787 Class A shares purchased at an average price of $342,577 per share during December 2020. After year end, it appears Berkshire has acquired more than $4 billion of its common stock based on its lower share count on the 10-K as of 2/16/21. With Berkshire's stock valuation still appearing attractively valued, we expect further share repurchases in 2021.

TJX THE TJX COMPANIES, INC.

The TJX Companies-TJX reported fourth quarter sales declined 10% to $10.9 billion with net income and EPS both down 67% to $325.5 million and $.27, respectively. The fourth quarter results reflected the negative impact of temporary store closures due to the pandemic for about 13% of the quarter, primarily in Europe and Canada. This resulted in lost sales during the fourth quarter of about $1 billion and negatively impacted EPS by about $.18-$.21. Overall, open-only comp store sales decreased 3%, which was well above the company's plan. During the quarter, TJX saw sales trends improve each month with positive comp store sales in January. HomeGoods double-digit comp store sales were especially strong as the store benefited from folks buying goods for their home due to remote working. Fourth quarter earnings results were also negatively impacted by a higher tax rate and a debt extinguishment charge of $.18 per share as the company refinanced its debt to lower its borrowing costs. For the full year, revenues declined 23% to $32.1 billion with net income and EPS each down 97% to $90.5 million and $.07, respectively. The lower sales for the year reflected the adverse impact of temporary store closures for approximately 24% of the year due to the COVID-19 pandemic. During the year, TJX's free cash flow increased 40% to $4.0 billion as the company curtailed store openings due to the pandemic. In fiscal 2022, the company plans to open 122 new stores with capital expenditures planned in the range of $1.2 billion to $1.4 billion. **The company ended the year with $10.5 billion in cash and is resuming its quarterly dividend at a rate of $.26 per share or 13% higher than the last dividend paid in March 2020.** TJX currently has 690 stores that are temporarily closed due to government mandate in response to COVID-19. The company expects these stores to be closed for about 11% of the first quarter of fiscal 2022. Additional headwinds to fiscal 2022 results include continued COVID-19-related costs and higher freight, wage and supply chain costs. Due to continued uncertainty around the global pandemic, the company is not providing financial guidance for fiscal 2022.

Maximus-MMS completed the acquisition of the Federal division of Attain, LLC for $430 million. Privately-owned Attain serves the U.S. Federal Government, with a strong reputation as an innovator with unparalleled technology services such as artificial intelligence and machine learning to support the mission-critical objectives of numerous federal agencies. The complimentary customer base of Maximus and Attain Federal offer meaningful opportunities for further expansion in the federal market. This business will be part of the U.S. Federal Services Segment and is expected to generate revenue of $120 million to $140 million for the remaining seven months of fiscal 2021. The transaction is expected to be slightly dilutive for fiscal 2021 and is expected to be accretive in fiscal 2022.

Regeneron-REGN announced detailed results from a Phase 2 proof-of-concept trial evaluating the investigational antibody cocktail REGN1908-1909 in cat-allergic patients with mild asthma. The trial met the primary endpoint of preventing early asthma reactions. The trial also met key secondary endpoints, including improved lung function and an increased amount of cat allergen that patients could tolerate following a single dose of treatment, from as early as the first assessment conducted at week 1.

In other news, Regeneron and Sanofi announced that the U.S. Food and Drug Administration (FDA) has approved the PD-1 inhibitor Libtayo® for the first-line treatment of patients with advanced non-small cell lung cancer. "The approval of Libtayo to treat first-line advanced non-small cell lung cancer with high PD-L1 expression means physicians and patients have a potent new treatment option against this deadly disease," said Naiyer Rizvi, M.D., Price Family Professor of Medicine, Director of Thoracic Oncology and Co-director of Cancer Immunotherapy at Columbia University Irving Medical Center.

Fastenal-FAST reported February sales and daily sales each rose 1.5% to $437.7 million and $21.9 million, respectively. Sales inched up 0.6% for manufacturing customers and declined 14.4% for non-residential construction. Daily sales growth by product line during the month was 17.6% growth in safety products and declines of 2.1% and 2.4% for fasteners and other products, respectively. Total personnel declined 7.4% to 20,565.

Johnson & Johnson-JNJ expects to deliver enough single-dose vaccine candidate by the end of March to enable the full vaccination of more than 20 million people in the US. JNJ plans to deliver 100 million single-dose vaccines to the US during the first half of 2021. JNJ will collaborate with Merck as part of its global network to manufacture its COVID-19 vaccine. This manufacturing arrangement will enhance JNJ's production capacity so that the company can supply beyond current commitments. Merck is the ninth manufacturer to join JNJ's global network and this significant collaboration will further enable the company to deliver its COVID-19 vaccine worldwide to combat this pandemic.

Mastercard-MA reported that despite the inclement weather felt across many parts of the country this February, U.S. retail sales excluding automotive and gasoline increased 4.6% year-over-year when adjusted for Leap Year. Online sales grew 54.7% compared to 2020. With more people watching football's big game from home, Grocery spend was up 30% the three days prior. That contributed to the Grocery sector growing +12.4% for the month. Also known for being the month of love, February saw Jewelry spend rise +5.9% and +63.1% online. Restaurant spend remained down (-13.5%) but has showed improvement over the past two months. Furniture & Furnishings (+8.6%) continued to post solid gains as seasonally cooler weather led to home improvements and décor projects. While Apparel sales were down -5.3% overall, Apparel e-commerce sales grew +47.3%. The infusion of stimulus payments in early January appeared to boost consumer spending in January and through early February.

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Mastercard's monthly SpendingPulse report provides us with a good pulse on retail spending in the U.S. economy. With personal consumption accounting for 70% of GDP, the report paints a picture of improving overall economic growth. Given the Federal Reserve's commitment to maintaining low interest rates, the additional $1.9 trillion in fiscal stimulus and the continued rollout of vaccines following the approval of Johnson & Johnson's COVID-19 vaccine, the economy should be poised for a strong recovery in 2021. While U.S. GDP is forecast to top 7% in 2021, the big question is how much of the good economic news Mr. Market has already priced into the stock market especially with whiffs of inflation floating in rarefied air in certain sectors of the market.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President