5-10-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 5-7-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,777.76	+2.7%	+13.6%
S&P 500	4,232.60	+1.2%	+12.7%
NASDAQ	13,752.24	-1.5%	+6.7%

Initial jobless claims for the week ending May 1 declined by 92,000 to 498,000, which is the lowest level since March 14, 2020, as the reopening of the economy is resulting in more hiring activity. Continuing claims for the week ending April 24 increased by 37,000 to 3.690 million. At the same time, the April employment report was surprisingly weak, with just 266,000 jobs added to nonfarm payrolls when many were expecting more than 1 million jobs. Net job gains were negative, excluding the leisure and hospitality industry, which added 331,000 jobs. It is a sharp slowdown from March and has ignited the argument that extended unemployment benefits have created a disincentive to look for work.

Consumer credit increased by $25.8 billion in March, which was the second straight month that the expansion in consumer credit exceeded $25 billion, underscoring the improved lending demand in a recovering economy.

Nonfarm business sector labor productivity increased at a 5.4% annual rate in the first quarter while unit labor costs decreased at an annual rate of 0.3%, which will enable the Fed to be patient in holding its easy monetary policy despite clear signs of commodity cost inflation.

The ISM Non-Manufacturing Index decreased to 62.7% in April from 63.7% in March. While the services sector activity is still running at a fast pace, business activity slowed modestly from the record pace logged in March. The ISM Manufacturing Index for April decelerated to 60.7% from 64.7% in March. The Prices component jumped to 89.6% from 85.9% and sits at its highest level since 2008. All 18 industries reported paying higher prices for raw materials for the fourth straight month.

Factory orders for manufactured goods increased 1.1% in March with shipments of manufactured goods up 2.1% after declining 1.9% in February. The recovery blip in February was largely a function of extreme winter weather and some natural slowing after a long streak of gains in factory orders. The report also demonstrates that demand for manufactured goods was quick to rebound.

Total construction spending increased by 0.2%. Total private construction rose 0.7% while total public construction spending decreased 1.5%. The ongoing strength in private residential construction spending is a byproduct of strong demand driven by a scarce supply of existing homes for sale.

The U.S. trade deficit widened to $74.4 billion in March with exports increasing by $12.4 billion to $200.0 billion and imports increasing by $16.4 billion to $274.5 billion. Both exports and imports increased sharply, which is a sign of increased demand. Importantly, it was exports and imports of both industrial supplies and materials and consumer goods that paced the pickup in trade activity, speaking to the uptick in demand seen for businesses and consumers alike.

During the past week, the markets were mixed with the Dow and S&P 500 once again hitting record highs with the Dow rising 2.7% and the S&P 500 increasing 1.2% while the NASDAQ fell 1.5%.

Regeneron-REGN reported a healthy 38% increase in first quarter revenues to $2.5 billion with net earnings surging 78% to $1.15 billion and EPS soaring 86%, on fewer shares outstanding, to $10.09. Adjusted EPS, which excludes unrealized gains and losses on investments and other items, increased 50% to $9.89. First quarter revenues were boosted by $262.2 million in domestic sales of Regeneron's antibody cocktail, REGEN-COV, approved for emergency use in the U.S. to treat non-hospitalized COVID-19 patients. The U.S. government has agreed to acquire up to 1.25 million additional doses at $2,100 per dose, resulting in payments of up to $2.625 billion in the aggregate. Excluding sales of REGEN-COV, Regeneron delivered a 20% year-over-year revenue increase. First quarter worldwide sales of products discovered by Regeneron included: Eylea, a leader in treatment for age-related macular degeneration and diabetic edema, with a 17% jump to $2.2 billion; Dupixent, a first-in-class treatment option for inflammatory diseases, surged 48% to $1.3 billion and recently approved Libtayo, now the standard of care for advanced cutaneous squamous cell carcinoma, generated sales of $101 million, up 35% from last year, with numerous new indications for the drug on the horizon. During the quarter, Regeneron generated free cash flow of $668.5 million, down 4% from last year, and free cash flow of $553.2 million, up 5%, on lower capital expenditures. The company repurchased 690,265 shares for $323.5 million, or $468.66 per average share. With $1.18 billion remaining under the current share repurchase program and a stock that, according Regeneron executives, trades below intrinsic value, the company remains active in repurchasing its shares. Regeneron ended the quarter with $7.05 billion in cash and investments, $2 billion in long-term debt and nearly $12 billion in shareholders' equity on its sturdy balance sheet. Looking ahead to the full year, the company expects to generate gross margins of 86% to 88% on net product sales and to spend between $3 billion to $3.175 billion in research and development.

Maximus-MMS reported second quarter revenue increased 17.3% to $959.3 million with net income jumping 191% to $80.6 million and EPS up 200% to $1.29. Growth was driven by new COVID-response work in the U.S segments, most notably U.S. Services, and employment services work in Australia. Year-to-date signed contracts as of 3-31-21 were $1.1 billion with contracts pending (awarded but unsigned) totaling $1.3 billion. The sales pipeline at quarter end was $35.6 billion, comprised of $6.9 billion in proposals pending, $1.6 billion in proposals in preparation and $27 billion in opportunities tracking. **Free cash flow increased 184% during the first half to $256 million with the company paying $17.2 million in dividends.** With a strong balance sheet and cash flows, liquidity is not a concern at the company. Maximus is raising guidance for fiscal 2021 as a result of the improved COVID-19 response work forecast and following the recently announced acquisitions of the Federal division of Attain, LLC and Veterans Evaluation Services, Inc. (VES). Revenue is expected to range between $4.0 billion and $4.2 billion and EPS to range between $4.20 and $4.40 per share including the expected impact of the two acquisitions.

Cognizant-CTSH reported first quarter revenues rose 4% to $4.4 billion with net income up 38% to $505 million and EPS up 42% to $.95. Revenue growth was driven by digital revenue growth of 15% which now represents 44% of total revenue up from 39% in the prior year period. Operating margin expanded to 15.2% during the quarter. Cognizant has over 200,000 associates working in India with the ongoing humanitarian crisis brought on by the pandemic deeply concerning. Cognizant has made a series of investments to support India during this time of need and continues to prioritize the health and safety of all their associates who continue to work from home. Total employee attrition during the quarter was a high 21%, partly due to the pandemic but also due to the intensely competitive war for talent. Cognizant is increasing its investments in recruiting and talent with a record 28,000 offers to new graduates. Free cash flow during the quarter declined 76% to $93 million reflecting payments of taxes that had been deferred due to the pandemic and increased cash incentives to associates. **During the quarter, Cognizant paid $128 million in dividends and repurchased $234 million of its common stock at an average price of $75.80 per share.** Cognizant has $2.6 billion remaining authorized for future share repurchases. In addition, Cognizant spent about $340 million on acquisitions during the quarter to support future growth. The company raised its outlook for sales for the full fiscal 2021 year to a range of $17.8 billion to $18.1 billion, representing 7%-9% growth , with adjusted EPS expected in the range of $3.90-$4.02.

FACTSET

FactSet-FDS announced that its Board of Directors approved a 6.5% increase in the regular quarterly cash dividend from $0.77 per share to $0.82 per share. The $0.05 per share increase marks the 22nd year the Company has increased dividends on a stock split adjusted basis, demonstrating its ongoing commitment to bring value to shareholders. The cash dividend will be paid on June 17, 2021, to holders of record of FactSet's common stock at the close of business on May 31, 2021.

ADP®

Private sector employment increased by 742,000 jobs from March to April according to the April **ADP® National Employment Report**TM. The labor market continues an upward trend of acceleration and growth, posting the strongest reading since September 2020," said Nela Richardson, chief economist, ADP. "Service providers have the most to gain as the economy reopens, recovers and resumes normal activities and are leading job growth in April. While payrolls are still more than 8 million jobs short of pre-COVID-19 levels, job gains have totaled 1.3 million in the last two months after adding only about 1 million jobs over the course of the previous five months."

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway-BRKB reported the company's net worth during the first quarter of 2021 increased 1%, or $4.8 billion, to $448 billion with book value equal to $293,627 per Class A share as of 3/31/21. Berkshire earned $11.7 billion in the first quarter, including $7.0 billion of operating earnings and $4.7 billion of investment and derivative gains.

Berkshire's four major equity investment holdings represent 69% of total equities, including American Express at $21.4 billion (which charged 17% higher during the first quarter or $3.1 billion), Apple at $110.9 billion (which pared back 8% in total value or $9.5 billion), Bank of America at $40 billion (which deposited a 28% gain in value during the quarter or $8.7 billion), and Coca-Cola at $21.1 billion (slipping 4% or $800 million).

Berkshire's revenues increased 6% during the first quarter to $64.7 billion with operating earnings rising 19.5% to $7 billion as many of Berkshire's businesses experienced a significant recovery in revenues and earnings following the pandemic.

During the first quarter, Berkshire's insurance underwriting profit more than doubled to $764 million as underwriting earnings from primary insurance offset underwriting losses from reinsurance. Underwriting results in the first quarter reflected the effects of the pandemic, arising from premium reductions from the GEICO Giveback program and reduced claims for private passenger automobile insurance. Insurance investment income declined 13% during the first quarter to $1.2 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. The float of the insurance operations approximated $140 billion as of 3/31/2021, an increase of $2 billion since year end 2020. The average cost of float was negative during the first quarter as the underwriting operations generated pre-tax earnings of $764 million.

Burlington Northern Santa Fe's (BNSF) revenues were relatively unchanged during the first quarter at $5.2 billion with net earnings chugging ahead 5% to $1.3 billion reflecting overall higher freight volumes and lower costs due to improved productivity and lower average fuel prices. Volume was up 5% during the quarter driven by double-digit gains in consumer and agricultural products, while industrial products and coal registered double-digit declines in volume.

Berkshire Hathaway Energy reported revenues charged ahead 31% during the first quarter to $5.9 billion. Net earnings rose 25% during the quarter to $703 million reflecting increased earnings from the natural gas pipelines and real estate brokerage businesses, partially offset by lower earnings from the other energy businesses.

Berkshire's Manufacturing businesses reported first quarter revenues rose 6% to $15.9 billion with operating earnings up 15% to $2.4 billion. The Industrial Products segment continued to be hard hit with revenues down 9% and

operating earnings down 13% during the first quarter. Precision Castparts experienced lower financial results due to the pandemic and the decline in commercial air travel and aircraft production. While air travel in the U.S. is increasing, Berkshire does not expect significant increases in the level of aircraft production to occur in the near term with Precision Castparts' revenues and earnings expected to remain relatively low in 2021. On a more positive note, both Building and Consumer Products generated strong double-digit sales and earnings growth during the quarter as residential housing construction demand remains strong with consumer product sales also demonstrating recoveries from the pandemic led by strong demand for Forest River, Brooks Sports and Duracell products.
Service and Retailing revenues increased 4% during the first quarter to $19.6 billion with pre-tax earnings soaring 67% higher to $1.0 billion. COVID-19 still has had a negative impact on NetJets and FlightSafety operations due to lower demand for aviation services. Thanks to strong demand for home furnishings and new and pre-owned vehicle sales at Berkshire Hathaway Automotive, retailing operations reported a 21% increase in sales and a 162% jump in earnings during the first quarter. McLane's revenues decreased 2% during the quarter to $11.6 billion with pre-tax earnings motoring 59% higher to $103 million due to increased earnings from the beverage business and ongoing cost management efforts.

Berkshire's balance sheet continues to reflect very significant liquidity and a very strong capital base of $448 billion as of 3/31/21. Excluding railroad, energy and utility investments, Berkshire ended the first quarter with $460.9 billion in investments allocated approximately 61.2% to equities ($282.1 billion), 4.3% to fixed-income investments ($20.0 billion), 3.6% to equity method investments ($16.5 billion), and 30.9% in cash and equivalents ($142.2 billion).
Free cash flow rose 77% during the first quarter to $6.8 billion. During the quarter, capital expenditures declined 15% to $2.5 billion, including $1.9 billion in the capital-intensive railroad, utilities and energy businesses. Berkshire expects capital expenditures for the remainder of 2021 to approximate an additional $8.5 billion for BNSF and Berkshire Hathaway Energy. During the quarter, Berkshire sold or redeemed a net $9.3 billion in Treasury Bills and fixed-income investments and sold a net $3.9 billion of equity securities. The $1.3 billion acquisition of the remainder of the Dominion pipeline business is expected to close in the second quarter of 2021.

Berkshire repurchases its shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. **During the first quarter, Berkshire repurchased $6.6 billion of its common stock.** These repurchases included 4,545,124 Class B shares acquired at an average price of $251.40 per share and 1,113 Class A shares purchased at an average price of $396,163 per share during March 2021. After quarter end, it appears Berkshire has acquired an additional $1.3 billion of its common stock based on its lower share count on the 10-Q as of 4/22/21.

Subsequent to the annual meeting, Warren Buffett announced that Greg Abel, Vice Chairman, would be Buffett's future successor. We believe Mr. Abel will be more than able to continue growing Berkshire and maintaining its culture in the decades ahead.

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Here is a tidbit from Barron's magazine, which celebrated its 100th anniversary this past week.

"What we want is confidence," Clarence Barron wrote in this magazine's first issue, dated May 9, 1921, near the nadir of the postwar recession. Over the next century, the stock market—represented here by the Dow Jones Industrial Average —would expand by magnitudes as the U.S. became the world's leading economic power. But it wasn't a straight line upward. The 1929 Crash gave back all the Roaring '20s' gains and plunged the nation into the Great Depression. More crashes and recessions followed. War and disease rocked the market. But always it roared back—never faster than after the Covid-19 pandemic. We look to the next century, with confidence."

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President