

# ECONOMY

THINK STRATEGICALLY:

## Oracle of Omaha's Annual Pilgrimage

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The annual pilgrimage to attend the Berkshire Hathaway yearly stockholder meeting took place this last Saturday, April 30. The holding company owns Geico, Berkshire Hathaway Reinsurance Group, Berkshire Hathaway Primary Group, Burlington Northern Santa Fe, Berkshire Hathaway Energy, Precision Castparts, Lubrizol, Clayton Homes, Marmon, and IMC/ISCAR. The uniqueness of Berkshire Hathaway is that the firm is run decentralized and based on trusting its key people. The meeting featured a five-hour Q&A with its chairman and CEO, Warren Buffett, as well as its vice chairman and partner, Charlie Munger. The duo did not disappoint as they provided opinions that ranged from criticizing investment banks and broker-dealers to cryptocurrencies.

During the meeting, Buffett, who is just 91 years young, said this about Wall Street in general: “Wall Street makes money, one way or another, catching the crumbs that fall off the table of capitalism; they don’t make money unless people do things, and they get a piece of them.”

The company reported its first-quarter results (1Q22): \$70.81 billion in revenues, up 9.61 percent, and net income of \$5.46 billion, down 53.3 percent. However, the company was quite active during the quarter, investing \$41 billion in stocks, reflecting its long-term outlook, and releasing some of its outsize cash reserves.

Notably, it increased its stakes in Occidental Petroleum to 14 percent, investing an additional \$7 billion in its shares; also, it raised its stake in Chevron from \$4.5 billion to \$26 billion, making it one of the four significant investments in Berkshire’s portfolio. Finally, it also agreed to acquire Alleghany Insurance for \$11.6 billion. During the meeting at the Omaha Arena, Buffett and Munger said their cash reserves remain quite lofty at \$106 billion, down from \$147 billion at the start of 2022. The duo said it had invested a total of \$51 billion in stocks during 1Q22, including repurchasing \$3.2 billion of Berkshire stock. We recommend that everyone reads its 10-Q report.

Buffett, 91, and Munger, 98, did not mention the topic of succession. However, having Berkshire Vice Chair Greg

Abel, who oversees all of the company’s noninsurance businesses now, will eventually replace him as CEO. According to Buffett, the Berkshire culture of decentralization and trusting key people to do the right thing will keep it running forever.

### The Week in Markets: Worst month since 2008, Dow Drops Over 1,700 points and Nasdaq falls 1,886

The U.S. stock market ended April with dismal results. The Dow Jones Industrial Average lost 1,701.14 points, or 4.91 percent, over the month; the S&P 500 lost 398.48 points, or 8.8 percent; and the Nasdaq composite lost 1,885.88 points, or 13.26 percent, while

the Birling Capital Puerto Rico Stock Index gained 33.9, or 1.23 percent.

These results make April the worst month since the global financial crisis. The combination of a war, rising interest rates, high inflation, new COVID-19 outbreaks in China, and a contraction of the U.S. economy proved too much for investors to handle.

April became a month of transition, of change, of transformation, and investor sentiment shifted. These changes became evident as those in monetary policy and rising interest rates due to out-of-control inflation took a back seat. Investors’ focus is on the deteriorating global economic growth, the U.S. GDP’s 1.4 percent contraction and the parade of corporate earnings that have taken center stage.

Meanwhile, all economic activity has turned more complex in the eurozone as Russia has decided to cut off gas and oil supplies to NATO members Poland and Bulgaria. Both nations were not willing to comply with Gazprom’s request to pay in rubles, as doing so would violate European Union sanctions. Russia is a significant natural gas and oil supplier, providing Europe 40 percent of its gas and 25 percent of its oil.

The newest concern is China, which is not known for its transparency and where reportedly there are massive pandemic lockdowns.

As we review the month, we note that all the indices we follow have reached new lows, all yielding negative double-digit returns for the year, the Dow is 10.39 percent off its high, the S&P 500 is down 13.86 percent, the Nasdaq 22.09 percent and the Birling Capital Puerto Rico Stock Index is 16.56 percent lower.

### How should investors react?

With all the economic and geopolitical challenges surrounding the markets, we advise investors to continue to plan for highly volatile markets for the remainder of 2022. However, even with the U.S. economy unexpectedly falling into a contraction, we do not think the U.S. stock market will worsen because strong corporate earnings will balance some of the risks of falling

into a correction.

The challenges include continued slowing economic growth and a fast-paced rising interest rate cycle. Nevertheless, the U.S. continues to show robust and resilient demand, strong business financial positions, and a healthier deleveraged U.S. consumer, all of which, in my view, will keep the market expansion going.

Stick to your long-term goals, stay the course and rebalance some of your holdings while looking for opportunistic investments.

### The Final Word: 1Q GDP contraction conceals strength in demand

Like many of you, I was surprised that the U.S. fell into a -1.4 percent contraction for 1Q22, after a 6.9 percent GDP growth.

While the numbers show a considerable decrease in exports combined with a sharp reduction in inventory spending, the numbers conceal a strong U.S. consumer, which amounts to 70 percent of the broader U.S. economy.

Highlights from last week’s critical economic data follow:

- U.S. Total Vehicle Sales rose to nearly 15.5 million, up from 13 million the previous month, or 18.9 percent.
- U.S. PCE Price Index year-over-year rose to 6.59 percent, compared to 6.27 percent last month.
- U.S. Index of Consumer Sentiment rose to 65.2, up from 59.4 last month, increasing 9.76 percent.
- U.S. Personal Spending rose 1.11 percent, compared to 0.62 percent last month.
- Businesses accelerated their capital investments to add more technology in place of a labor shortfall, at 9.2 percent, the most invested in 12 months.

In conclusion, Wall Street lives in the future, and so should you, and we must look beyond this past month’s dismal results and focus on the rest of the year as we now have an economy back to pre-pandemic strength and the trends are positive.

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market Close Comparison	4/29/22	4/22/22	Return	YTD
Dow Jones Industrial Average	32,977.21	33,811.40	-2.47%	-9.25%
Standard & Poor's 500	4,131.93	4,271.78	-3.27%	-13.31%
Nasdaq Composite	12,334.64	12,839.29	-3.93%	-21.16%
Birling Puerto Rico Stock Index	2,698.25	2,662.02	1.36%	-6.28%
U.S. Treasury 10-Year Note	2.89%	2.90%	-0.34%	1.40%
U.S. Treasury 2-Year Note	2.70%	2.68%	0.75%	1.20%