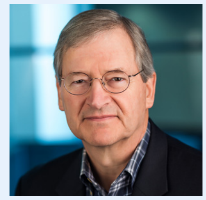
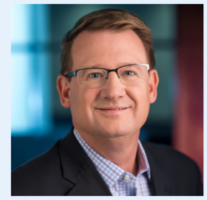
Weitz | INVESTMENT MANAGEMENT

What a Recovery Looks Like



WALLY WEITZ, CFA
Co-Chief Investment Officer
& Portfolio Manager



BRAD HINTON, CFA
Co-Chief Investment Officer
& Portfolio Manager

The third quarter was a good one for our equity and conservative allocation portfolios. Mega-cap technology and "work from home" (WFH) stocks continued to pace the market's advance. This is partly because they ***are*** better businesses for today's economy, but also because a lot of the cash created by the Federal Reserve (Fed) for its quantitative easing program found its way into the stock market, much of it directed by index investors so it boosts those same stocks. Year-to-date returns for our equity funds reflect their relative exposure to these favored stocks.

While our focus here is primarily on equities, our fixed income portfolios also showed good quarterly and year-to-date returns. Weitz fixed income portfolio managers Tom Carney, CFA, and Nolan Anderson provide bond market perspectives in their **Q3 Fixed Income Insights**. In addition, you can find more specific information for all of our funds in our portfolio managers' individual fund commentaries.

Where Are We Now?

The S&P 500 lost about one-third of its value between its February high and March low as investors reacted to the COVID-19 crisis and the shutdown of the economy. Since then, stocks have roared back to new highs, at least as measured by the S&P 500. We share investor optimism about the future, but we suspect the economic recovery will take longer and will be more uneven than the market's rebound would suggest.

In fact, the S&P 500's performance belies divergent trends among economic sectors. Zoom, Amazon and Netflix are actual beneficiaries of the pandemic. Airlines, hotels and theaters have been crushed. Most companies have experienced both positive and negative impacts, and investors' affections have vacillated. Our take is that the good, the bad and the ugly alike will be mispriced from time to time and that patient investors will be able to take advantage over the next year or two as we get a clearer vision of what a new version of "normal" will be like. Here are some of the factors we are watching and trying to analyze:

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Controlling the Virus

The scientific community is still learning about the coronavirus and is working overtime to develop treatments and vaccines. Policymakers are seeking a balance between shutting down for safety and opening up for economic health. In the absence of an effective vaccine, the primary public health measure available today is a regimen of testing, tracing, isolating and wearing masks. With inadequate availability of testing along with a persistent resistance to mask-wearing, we continue to experience new surges of infections (recently in the Midwest and Northwest, as this letter goes to press). Nevertheless, a combination of behavioral changes and medical advances should eventually allow for a relatively open economy. The pace of recovery is likely to be uneven, and it may be years before a majority of people are comfortable in theaters, restaurants and airplanes.

We own several companies (Danaher, LabCorp, Thermo Fisher) that provide COVID diagnostic testing and/or make instruments and supplies used in testing and developing therapeutics and vaccines. We do not own any of the drug companies that are competing to invent vaccines because we do not know how to handicap the race or to estimate the profitability of the winning product(s). As for policy measures, we citizens can have influence by voting and modeling good behavior. But the whack-a-mole nature of outbreaks would suggest that the virus will be with us for some time.

Fiscal and Monetary Policy – Debt and Deficits – Induced "Wealth Effect"

The Fed and Treasury have each injected trillions of (freshly created) dollars into the U.S. economy. Budget deficits are at record highs (by a wide margin) and the national debt has risen sharply. This spending has helped stabilize financial markets and sustain consumer spending, but it has done little to promote economic growth.

Theoretically, this money creation should be inflationary, yet potent *deflationary* forces (technology, globalization, excess

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productive capacity) have kept inflation at bay. This apparent contradiction has been puzzling to us.

One clue to how we might transition from deflation to inflation may lie in consumer expectations. So far, while government spending has risen dramatically, a large proportion of the cash has ended up as savings or debt reduction. In monetary policy language, the ***quantity*** of money has increased, but not its ***velocity***. It seems plausible to us that if inflationary ***expectations*** rise, spending will accelerate. Spending in anticipation of price increases can create a feedback loop that pushes the inflation rate higher. The Fed is trying to push inflation ***up*** to a 2% annual rate, and once it begins to succeed, it may well over-achieve.

We have no idea when, or if, this might happen. But higher inflation generally means higher interest rates and lower P/E ratios for stocks as fixed income securities offer more potent competition for equities. No businesses are immune to inflation, but we have always favored companies that have pricing power over highly competitive and commodity-related businesses that have little control over their (pricing) destiny. Payments companies like Visa and Mastercard whose fees are tied to spending are direct beneficiaries of inflation. Subscription businesses like cable and broadband (Liberty Broadband and Comcast) and satellite radio (Liberty Sirius XM) should find it relatively easy to pass through price increases. Finally, JPMorgan, First Republic and Schwab should be able to increase their net interest margins in a higher-rate environment.

A by-product (or perhaps a primary objective?) of the Fed's extraordinarily generous monetary policy is that trillions of new dollars *have to go somewhere*, and, with rates at or near zero, *there is no alternative* to equities. In October of 2018, when the Fed took its first baby step towards withdrawing the plentiful "free" money from the system, the S&P dropped about 20% in a few weeks. As economist Herb Stein said, "If something cannot go on forever, it will stop." The end, or the threat of an end, to the current pace of monetary expansion could well cause the stock market some heartburn.

Disproportionate Impact on Poor and Low-Wage Workers

Income inequality was already a significant issue in the U.S. before COVID struck. One recent study, conducted before the pandemic, found that about 40% of American families could not afford a $400 surprise expense. This group seems more likely to include people employed in the service industry or other essential workers, more subject to infection and layoff, and likely to face catch-up payments after mortgage or rent forbearance. White-collar and other workers who have been able to work from home are less likely to have been severely impacted. While the ***aggregate*** economic indicator numbers are improving, full recovery to 2019-level economic activity will require that the "have-nots" of the economy participate as fully as the "haves."

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November Election

Whether the election results in the status quo, a Democratic sweep or something in between, there will be plenty of uncertainty as to future monetary, fiscal, tax, pandemic response, foreign policy and any number of other policy matters. The big issues, including those discussed above, will need to be addressed by whoever is in office. From the purely self-interested viewpoint of an investor, it is very hard to say that one side or the other is "best" for stocks or bonds. There are bigger issues involved than one's portfolio, though, so we urge our clients to join us in voting.

Outlook

These are interesting times. We believe some things ***are*** different this time. The U.S. economy is resilient, and we are already seeing creative responses to the pandemic and an explosion of new products and businesses. We are optimistic about a return to a recognizable version of normal. Our quibble with the conventional wisdom, at least as reflected in today's stock prices, is the assumption that the recovery will be quick and painless – the "V" recovery.

We believe that there will be surprises along the way and that investors' emotional reactions will ensure plenty of volatility over the next year or two. The virus, the economy, the election, our relationship with China, persistent demands to address issues of diversity and inclusion, and the effects of climate change are all part of the mix that could keep investors off balance. Uncertainty and volatility have a way of creating opportunities for flexible investors. We are excited about the possibilities.

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Thanks again to our shareholders and clients who have entrusted their investment capital to us. We appreciate your confidence.

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 10/19/2020, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

As of 09/30/2020, the following portfolio company constituted a portion of the net assets of Balanced Fund, Hickory Fund, Partners III Opportunity Fund, Partners Value Fund, and Value Fund as follows:

- Amazon.com, Inc.: 0.0%, 0.0%, 2.6%, 0.0%, 3.3%
- Comcast Corp.-Class A: 1.1%, 0.0%, 0.0%, 0.0%, 3.1%
- Danaher Corp.: 1.7%, 0.0%, 0.0%, 0.0%, 4.6%
- First Republic Bank: 0.0%, 1.6%, 0.0%, 1.6%, 0.0%
- JPMorgan Chase & Co.: 1.1%, 0.0%, 0.0%, 0.0%, 2.8%
- Laboratory Corp. of America Holdings: 1.7%, 5.0%, 4.4%, 4.5%, 3.8%
- Liberty Broadband Corp.-Series A&C: 0.0%, 6.8%, 4.9%, 4.8%, 0.0%
- Liberty Broadband Corp.-Series C: 0.0%, 0.0%, 0.0%, 0.0%, 4.9%
- Liberty SiriusXM Group-Series A & C: 0.0%, 4.4%, 4.5%, 4.1%, 0.0%
- Liberty SiriusXM Group-Series C: 0.0%, 0.0%, 0.0%, 0.0%, 2.9%
- Mastercard Inc.-Class A: 1.7%, 0.0%, 4.9%, 3.8%, 4.2%
- Netflix, Inc. 0.0%, 0.0%, 0.0%, 0.0%, 0.0%
- The Charles Schwab Corp.: 1.5%, 0.0%, 3.3%, 3.3%, 3.8%
- Thermo Fisher Scientific Inc.: 2.4%, 0.0%, 0.0%, 0.0%, 4.6%
- Visa Inc.-Class A: 1.6%, 0.0%, 4.9%, 4.2%, 4.2%
- Zoom Video Communications, Inc.: 0.0%, 0.0%, 0.0%, 0.0%, 0.0%

Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com.

Weitz Securities, Inc. is the distributor of the Weitz Funds.