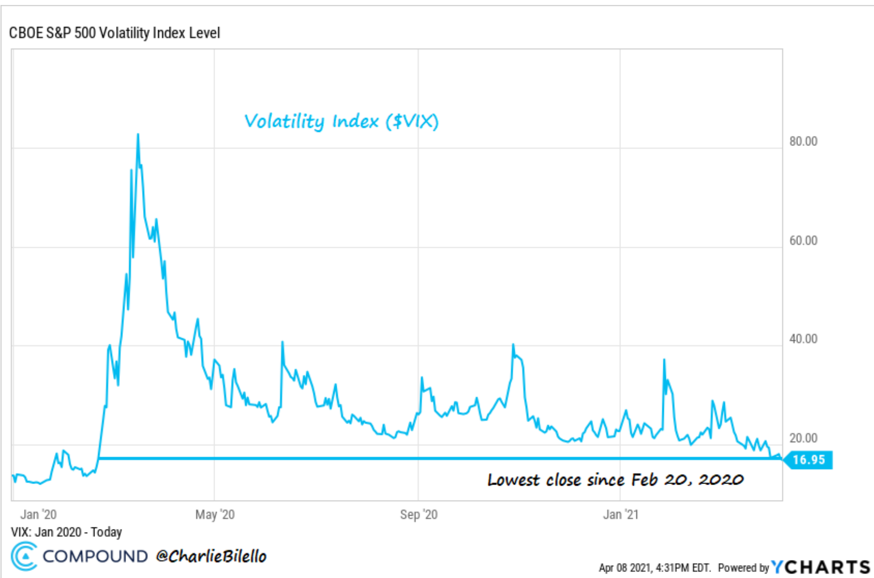
MARATHON INVESTMENTS Newsletter, April 11, 2021

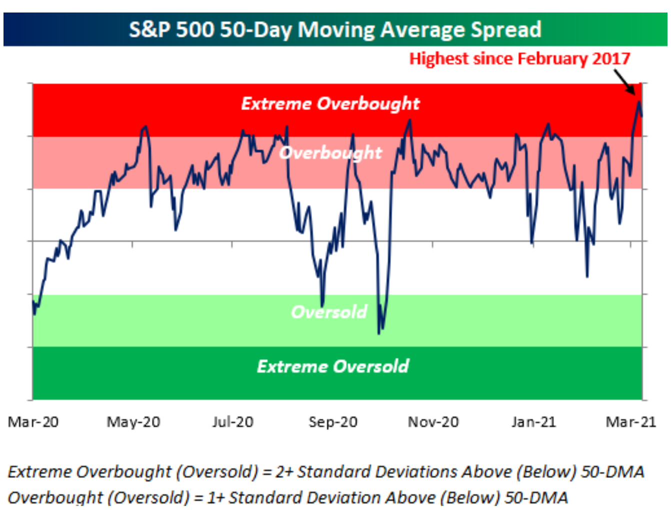
The S&P 500 closed at 4,128.80 on Friday, up 2.7% for the week and up 9.9% year-to-date.

The Dow and the S&P 500 reached new all-time highs last week, but on low volume. The Nasdaq is only 1.5% off its high. Shares of big technology companies were among the winners in the stock market last week as investors returned to a trade that had been popular for much of last year. This was triggered by a calmer bond market with yields dropping. Energy stocks gave back 4% of their recent strength. This week, first quarter earnings season will kick off, starting with the big banks, but the real action won’t come until the second half of this month.

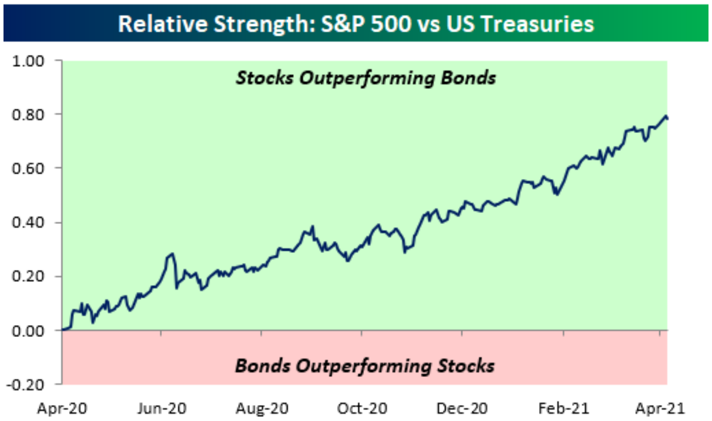
It has been calm lately and volatility is low, indicating complacency in the market. The VIX is back below 20, where it was pre-pandemic, down 80% from its record-high close in March 2020. The VIX is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.
A popular saying is - when the VIX is low, it is time to go; when the VIX is high, it is time to buy.



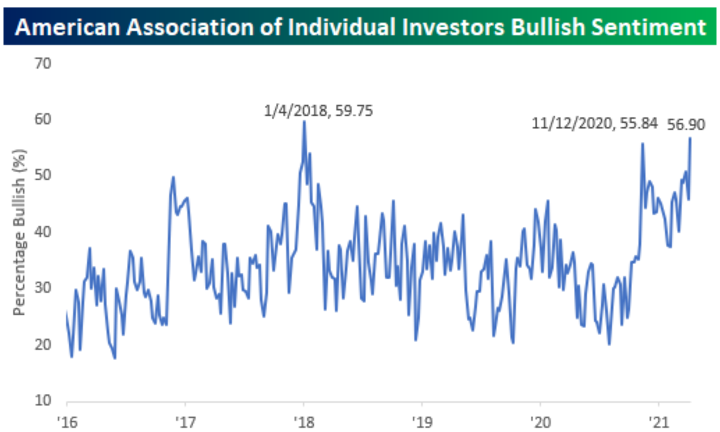
After breaking out to record highs last week, the S&P 500 traded at its most overbought levels in four years, two standard deviations above its 50-day moving average (red).
Over 95% of S&P 500 stocks are above their 200-day moving average, the highest level since October ’09.



It has been about as perfect a year for equities relative to long-term US Treasuries as you can get. At no point in the last year has the S&P 500 underperformed the US long bond future on a cumulative basis.



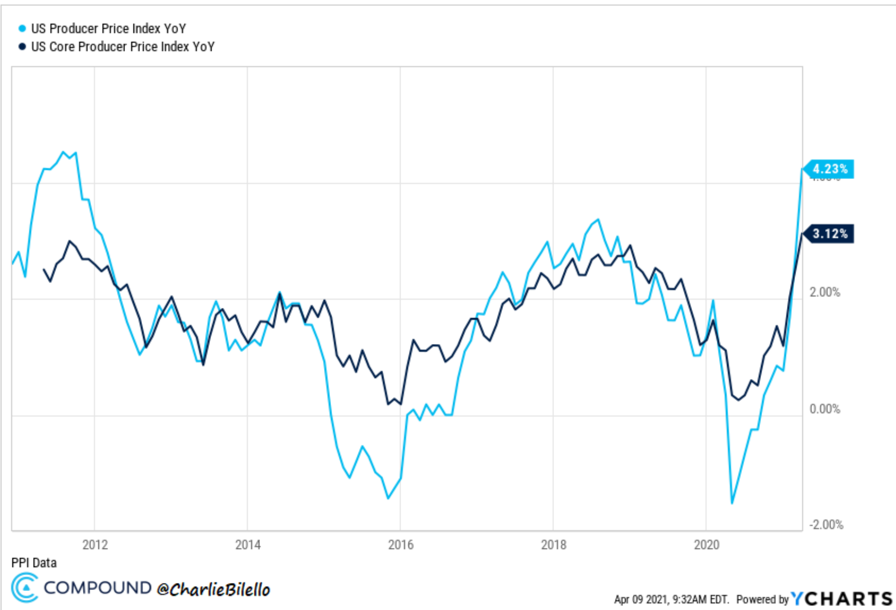
As stocks have rallied to record highs, investor sentiment has turned more bullish.



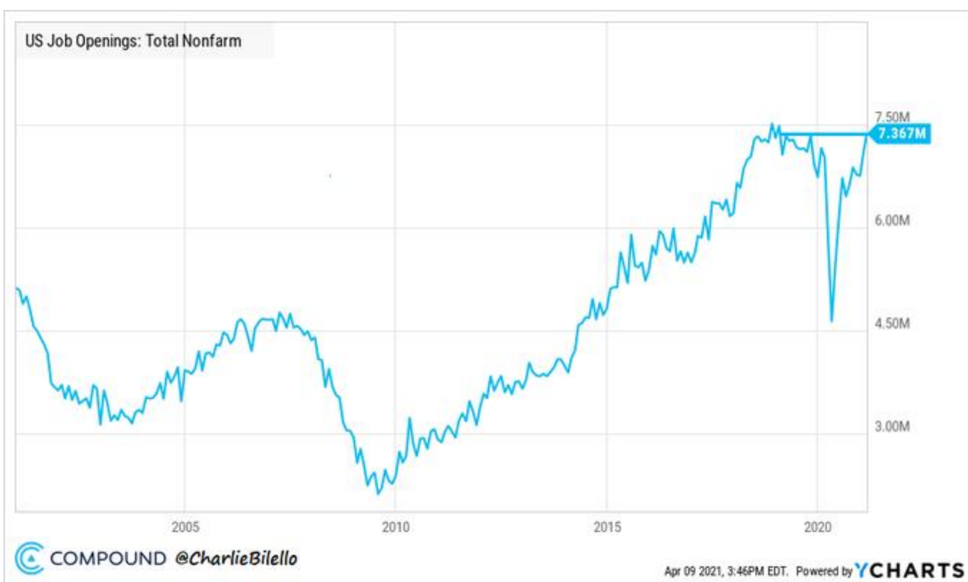
The Buffett Indicator is a ratio used by investors to gauge whether the market is undervalued, fair valued, or overvalued. The ratio is measured by dividing the collective value of a country's stock market value by the nation's Gross Domestic Product (GDP). You should expect the ratio to be above 1 as the stock market discounts future advances in new technologies, like 5G, artificial intelligence, blockchain, cyber security, robotics, fintech, telemedicine, etc. The current value of 2.2 is extreme high, however, depicted in the 15+-year graph below. Maybe, in times of excessive money printing, we need to look at the markets in a new way.

Stocks more attractive than bonds
The analyst community currently expects the S&P 500 to have full-year earnings of $172.50 per share. Going by today's level, that means the S&P 500 is trading at 24 times this year's expected earnings. That's high, but it also needs to be put in context. The earnings yield (the inverse of the P/E ratio) is 4.15%. That compares favorably with the 10-year Treasury yield at 1.66%. Going out even further, Wall Street analysts expect 2022 earnings of $200 per share. I'm leery of forecasts going out that far, but on 2022 earnings the P/E ratio is 20.65 and the earnings yield 4.84%. The thinking is that if a robust recovery is coming our way, then equity prices are not unreasonably high.

Inflation remains subdued, according to the Fed
The Fed released the minutes from their last meeting last Wednesday, saying "underlying inflationary pressures remain subdued." Meanwhile, in the real world, prices continue to surge higher. The Producer Price Index (PPI) came in at +4.2% overall with a 3.1% increase excluding food and energy (core PPI).



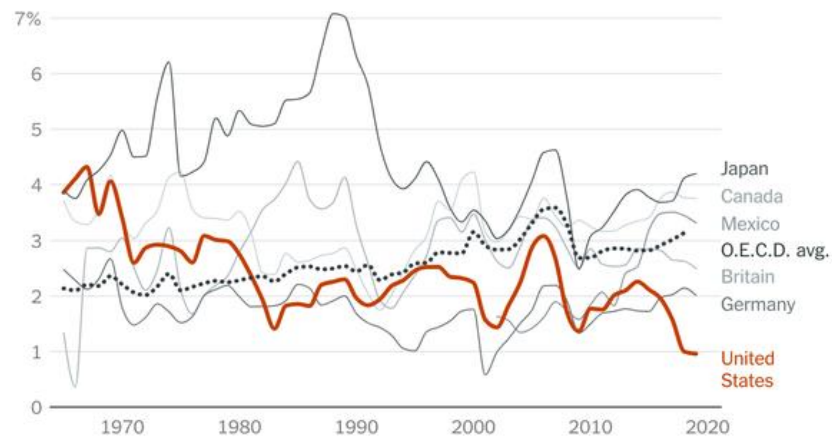
US job openings are at their highest levels since January 2019, not far from their record high.



The Biden administration has unveiled its corporate tax proposal, intended to raise $2.3 trillion over 15 years to pay for an infrastructure program. Items from the plan include:

- Raise the corporate tax rate to 28 percent from 21 percent.
- Ensure big companies pay at least 15 percent in taxes.
- Strengthen the global minimum tax to end profit shifting.
- Punish companies that headquarter in low-tax countries.
- Replace fossil-fuel subsidies with clean-energy incentives.
- Beef up the IRS.

Taxes levied on corporate profits, as a share of G.D.P.



Source: Organization for Economic Co-operation and Development • By The New York Times

A 28% corporate tax rate will bring the U.S. to one of the highest levels among developed countries, but several very large companies (like Amazon) are very good at avoiding paying taxes. U.S. corporate profit taxes, as a share of GDP, are only 1%, as shown in the graph.

Treasury's Yellen is asking for a global minimum corporate rate. The idea is for the U.S. to stay competitive when we raise our taxes. This is like a corner gas station asking its rival across the street to raise prices. Or requesting the rest of the world to increase their obesity, gun ownership and inequality as they are making us look bad. And why are we subsidizing fossil fuels?

Building wealth in the stock market requires patience and discipline. Marathon Investments selects quality companies with strong balance sheets which generate above average cash flows and dividends. The company is expanding and interested in new clients and referrals. Portfolios are personalized, there are no investment minimums and costs are low to ensure that you benefit the most in the ***long run.***

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Thank you for your interest, Hans

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