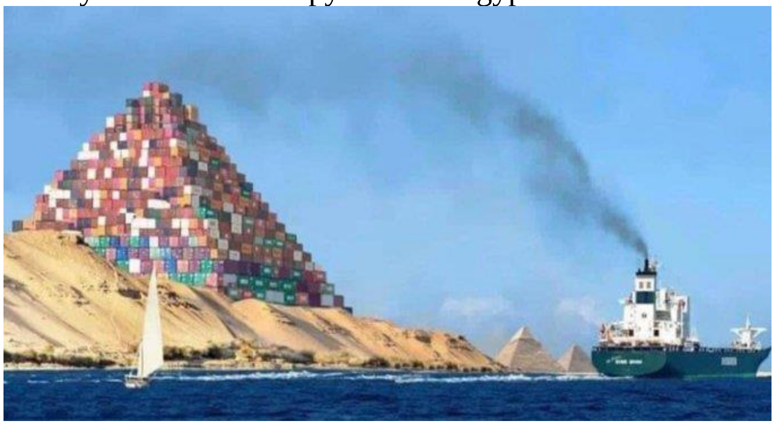
MARATHON INVESTMENTS Newsletter, April 4, 2021

The S&P 500 closed at a record 4,019.87 on Thursday, up 1.1% for the week and up 7.0% year-to-date.

Have you seen the new pyramid in Egypt?



First professional soccer player vaccinated

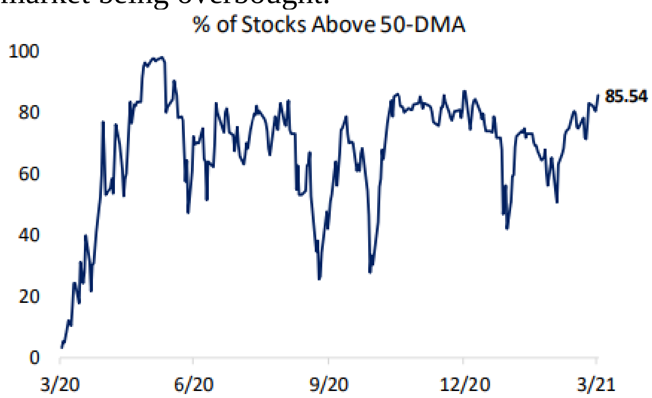
The S&P 500 closed above 4,000 for the first time. During the depths of the crash last March it was below 2,200. Apple, Microsoft, Amazon, Facebook and Alphabet contributed 43.8% of the S&P 500's rise from 3,000 to 4,000.

- **The S&P 500's first close above:**
  - 100: June 4, 1968
  - 1,000: February 2, 1998
  - 2,000: August 26, 2014
  - 3,000: July 12, 2019
  - 4,000: April 1, 2021

There are two powerful forces in markets: 1) **momentum** dictates that what has done the best in the past will continue to do the best and 2) **mean reversion,** which is the opposite, where what has done the worst will eventually do the best, reverting back to its mean. That both can be true is one of the great paradoxes in investing.

In the past few years, momentum stocks, like many technology stocks, led the market higher. That was different in the first quarter when stocks that had performed the worst, led the market to new highs. Energy and financials were among the best performing sectors, while especially very highly valued technology stocks underperformed.

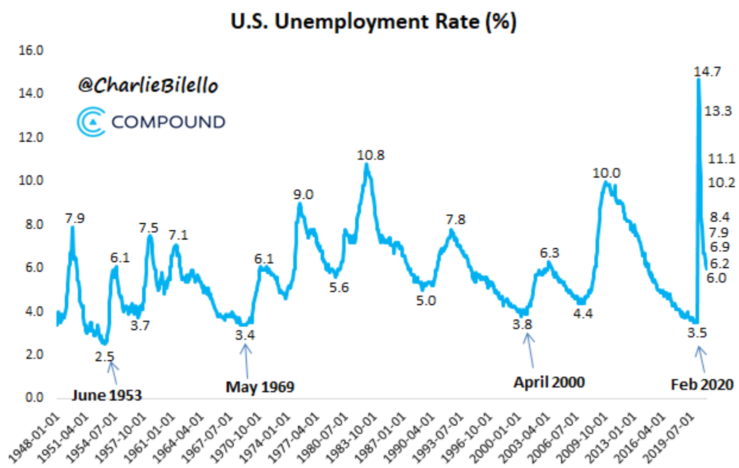
Market breadth, a sign of underlying strength or weakness, has been strong lately. This means that the strength of the market has been broad based, with nearly all stocks participating. As shown below, 85% of stocks in the S&P 500 are trading above their 50 Day Moving Averages (50-DMAs). This is a technical indicator of the market being overbought.



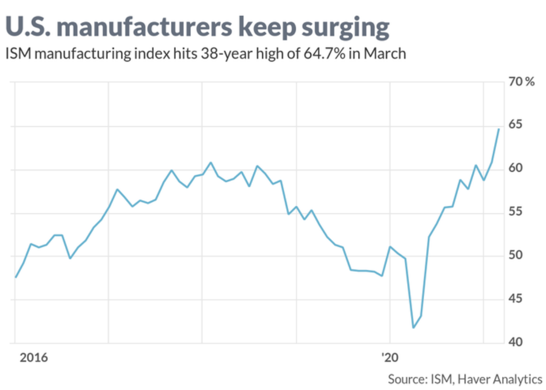
In the first quarter, we saw the biggest Treasury sell-off in decades. Interest rates rose and the 30-year Treasuries suffered a total return loss of 15.7%, its worst quarterly showing since inflation-racked 1976. On the other side of the coin, the most speculative junk bonds maintained their value, with triple-C-rated bonds showing a small positive return.

President Biden unveiled some of the details in his $2.25 trillion infrastructure package. Included in the plan is an increase in the corporate tax rate to 28% (from 21% currently) to "fund the package within 15 years." If approved, that would push the combined Federal/State corporate tax levels in the US back to the highest rate among developed nations.

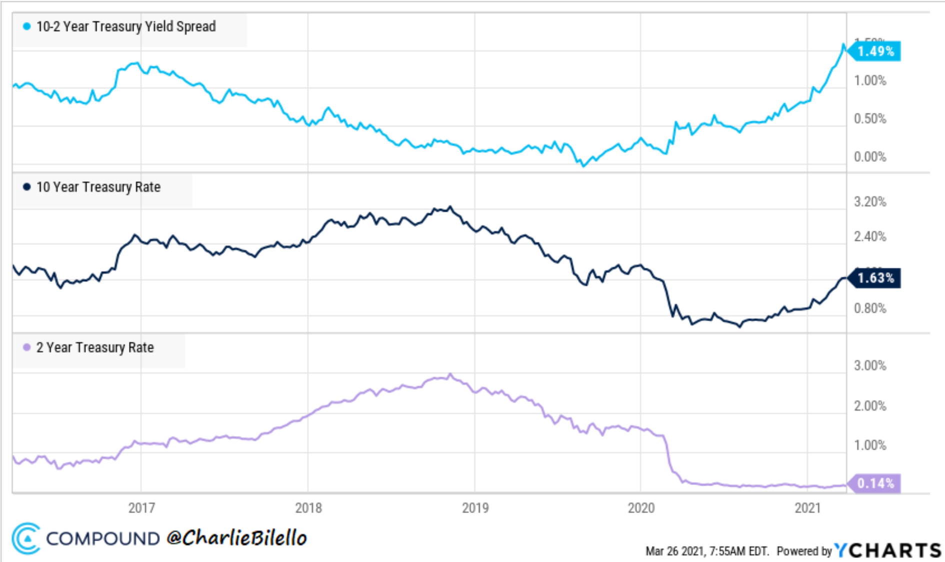
As the US reopening continues, jobs are coming back. The jobs report showed acceleration in March to the fastest pace since August of last year. The economy added 916,000 jobs in March and job growth was revised up in both January and February. Restaurants, hotels and construction saw the best job gains. Still, as of March, there are 8.4 million fewer jobs than in February 2020. The Unemployment rate moved down to 6% in March, its lowest level since the pandemic began. In April 2020 it was as high as 14.7%.



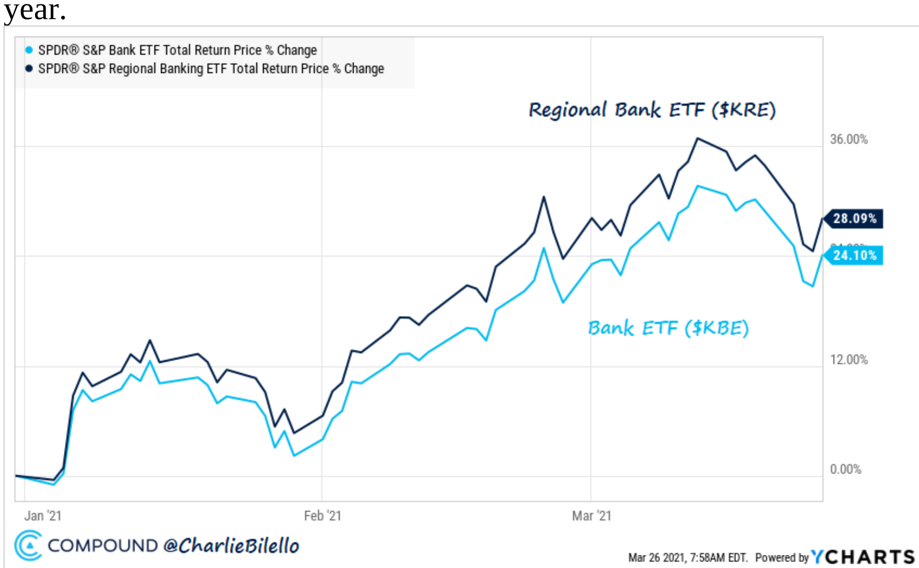
U.S. factory production soared in March, according to the Institute for Supply Management (ISM), an industry trade group. Its index of factory activity rose to 64.7 in March from 60.8 on February. That marks the index's strongest reading since December 1983. The survey also served as a reminder as to how quickly inflation pressures are building in the expanding economy due to supply chain shortages.



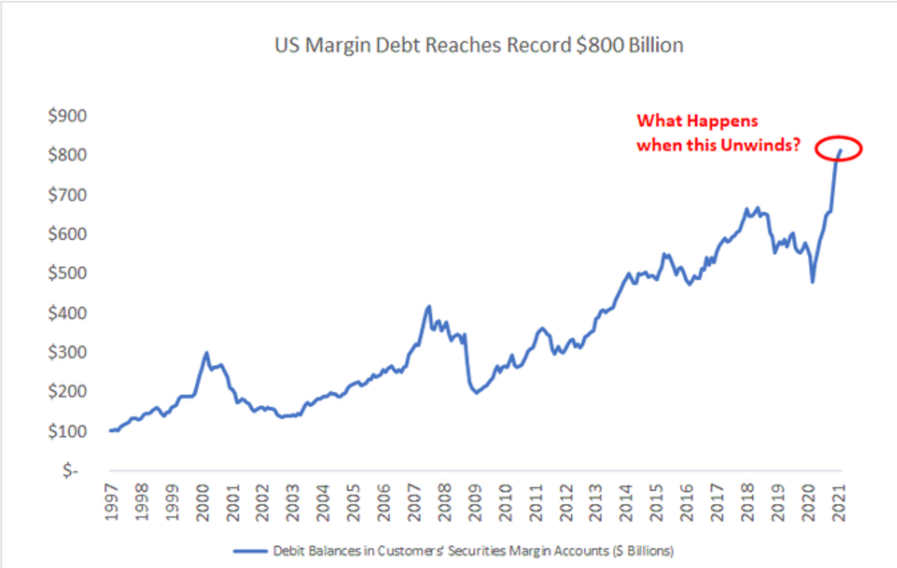
The US Yield Curve (spread between 10-year and 2-year yields) has been increasing, at its steepest levels since 2015.



This trend has greatly benefitted bank stocks (on the expectation of increasing profits from borrowing money at low rates and lending money at higher rates), which have been outperforming the market by a wide margin this year.



U.S. margin debt is at a record $800 billion. What happens when this unwinds? We got a taste of this recently. If the margin calls on a $10B fund can send core holdings down 50% in a week, what do you think will happen during the next market wide shock when the record $800 billion in retail leverage unwinds?



One of the world's largest hidden fortunes was wiped out in a few days.
Bill Hwang's Archegos Capital Management is at the center of one of the biggest margin calls of all time, a multibillion-dollar fiasco involving secretive concentrated market bets that were dangerously leveraged. Some people estimate that Archegos' $10 billion net capital was highly levered to at least $50 billion (five to eight times holdings). It evaporated in a few days. As always, too much debt is at the heart of any blowup.

Hwang had set up as a family office with limited oversight and then employed financial derivatives to amass big stakes in a few companies without ever having to disclose them. He effectively owned 25% of some companies according to a person familiar with the matter. Archegos' lenders say they were unaware of the extent of similar trades he was making with other banks. Stricter disclosure rules might have led fewer banks to lend to Archegos. This is a systemic risk and I'm sure the regulators will impose stricter rules on family offices.

The margin calls started when ViacomCBS announced a secondary offering of its shares and its stock price tumbled. Suddenly, the collateral Archegos had given the banks was no longer enough to back the loans. Banks hit Archegos with margin calls to back up its trades, which initially were met by the fund. However, as ViacomCBS' stock kept, the margin calls resulted in banks dumping stocks of ViacomCBS, Discovery, Baidu and a few other companies. It appears that Goldman Sachs and Morgan Stanley were able to unload shares quickly, keeping their losses manageable, but Credit Suisse and Nomura weren't so lucky.

The banks embraced Hwang as a lucrative customer, despite a record of insider trading and attempted market manipulation that drove him out of the hedge fund business a decade ago. Banks never learn. I view them as surfers trying to catch the next big (profitable) wave without knowing what's behind it.
Hwang's appetite for risk and big, debt-fueled, bets backfired spectacularly. Banks loved the fees they earned when times were good.

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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Reaching financial success is a marathon, not a sprint. Slow and steady wins the race.

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