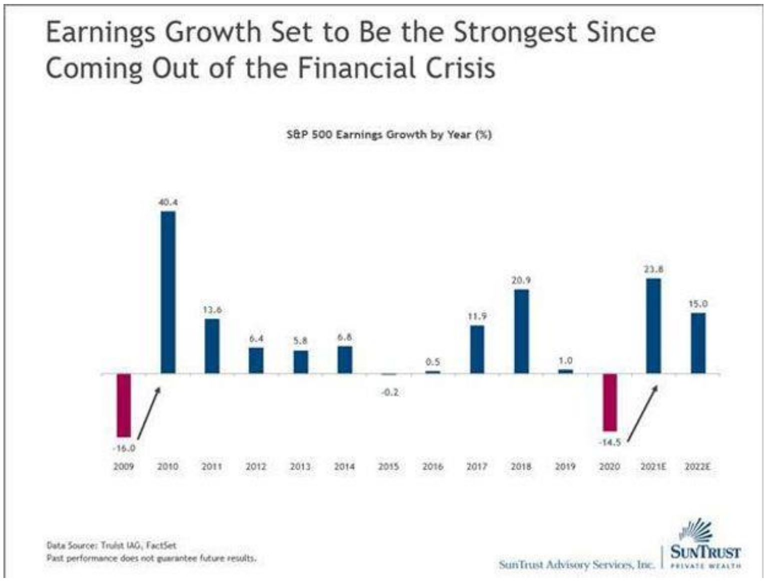
MARATHON INVESTMENTS Newsletter, February 14, 2021

The S&P 500 closed at 3,934.83 on Friday, up 1.2% for the week and up 4.8% year-to-date. Better than expected corporate earnings and continued hope of further fiscal stimulus powered the market higher.
After S&P 500 earnings declined 14.5% in 2020, expectations are for a rebound of more than 20% this year, a similar pattern that we saw coming out of the financial crisis in 2010.



Japan's main stock index, the Nikkei 225, hit 30,000 Yen for the first time since 1990. Still, Japan's market is nowhere near its heyday of the 1980s. Today's 31-year highs are still around 23% lower than the market's all-time high on December 29, 1989: 38,916 Yen.

Attention: Deficit Disorder
The federal budget deficit reached $738 billion through four months of fiscal 2021 ended Jan. 31. That's up 89% from the year-over-year, pre-pandemic figure, as receipts largely held steady at $1.2 trillion, while outlays leapt to $1.9 trillion, a record 23% increase.
For the full fiscal year ending September, the Congressional Budget Office (CBO) pencils in a $2.3 trillion shortfall, equivalent to 10.3% of Gross Domestic Output (GDP). For context, that number peaked near 9% of GDP in the financial crisis aftermath of 2009 and 2010 and has averaged 3.1% over the last 50 years.
That current-year shortfall is set to grow larger still, as President Biden looks to pass additional stimulus of up to $1.9 trillion, spending which is not currently incorporated in CBO estimates.
Of course, low interest rates make exploding deficits far easier to manage. On that score, so far, so good. Thanks to very low interest rates, interest payments across the first four months of the year declined 14% on a year-over-year basis but note that interest rates have been ticking up recently.
Last week, Treasury Secretary Janet Yellen spread the good news of deficit spending in a virtual meeting with G7 finance ministers. She stressed the importance of providing further fiscal support to promote a robust and lasting recovery. She emphasized that "the time to go big is now" and that the G7 should be focused on what more we can do to provide support at this time.
The Fed chairman Jerome Powell reiterated that the Federal Reserve is unlikely to consider raising rates or reducing bond purchases for the foreseeable future.

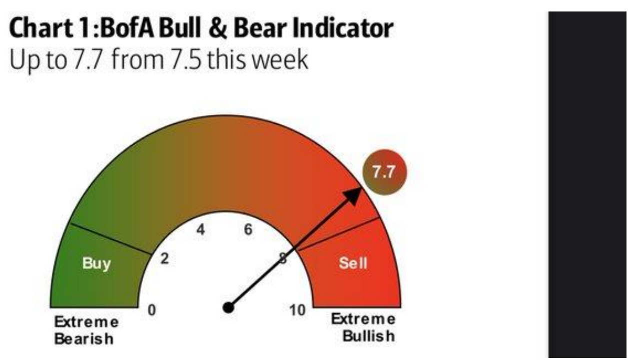
US 30-year yields closed Friday at 2.01%. US 10-year yields closed Friday at 1.21%. Both are the highest rates since the pandemic. The bond market decline continues. The value of bonds decreases when interest rates go up. Investors cited the ongoing concern about inflation rising as the economy recovers, given the huge amount of fiscal and monetary stimulus administered by Congress and the Federal Reserve in the past year.

Junk bonds are popular; investors ignore risks

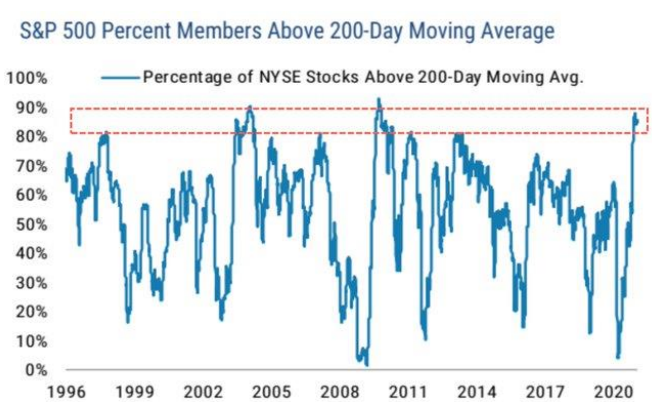
Investors scrape the bottom of the barrel in the U.S junk market. People are dipping down into some really scary credits in order to find yield. Signs of exuberance in a market often associated with painful bankruptcies and loss-making companies also has investors trading the potential to earn income with much higher levels of risks taking. The riskiest US debt is paying out less than 4% for the first time as desperate investors clamor for yield. Index tracking corporate junk bond-yield debt has dropped to 3.96%

Is it me or is it really getting hot in here?

Let me be clear, market timing has not worked historically but the U.S. stock market is extended, looking pricey and due for a pullback. Low interest rates and ample liquidity have been powering the market to nearly extreme bullish levels, according to strategists at Bank of America.

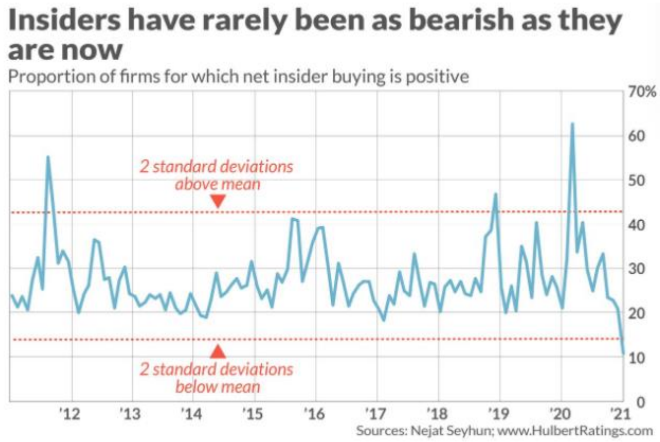


Over 80% of companies in the S&P 500 are trading above their 200-day moving average, which is usually as good as it gets.



The situation is even more extreme for small cap companies as their stock prices are trading now over 40% above their 200-day moving average, which is unparalleled.

Corporate insiders (directors and officers) have rarely been as bearish as they are now and have been net sellers of their company stocks.



*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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