MARATHON INVESTMENTS Newsletter, February 21, 2021

The S&P 500 closed at 3,906.71 on Friday, down 0.7% for the week and up 4% year-to-date.

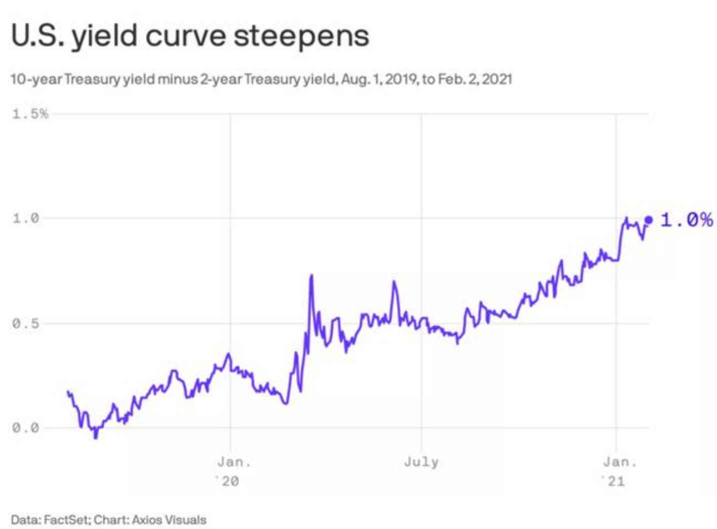
The rise in interest rates and inflation concerns were major themes last week. While still historically low, the yield on the 10-year Treasuries has risen to 1.37% after trading around 0.50% in mid-2020. The producer price index (PPI) rose a seasonally adjusted 1.3% in January, which is very high. This is a measure of prices that businesses receive for their goods and services.

Since the third quarter of 2020, the U.S. economy has been in a reflationary cycle, meaning that we're getting rising economic activity, rising inflation, and rising long-term Treasury yields from very low levels.

Most asset classes have benefited from this, but going forward if this trend continues, rising Treasury yields would put pressure on overstretched growth stock valuations, like technology stocks. Those rising yields are less of a problem for cyclical/value stocks, like financials.

The U.S. yield curve is steepening

This means that the gap between the yields on short-term bonds and long-term bonds widens. The graph shows the 10-year Treasury yield (1.37%) minus the 2-year Treasury yield (0.11%) rising to 1.26% today. A steepening yield curve typically indicates stronger economic growth, rising inflation expectations and thus higher interest rates.

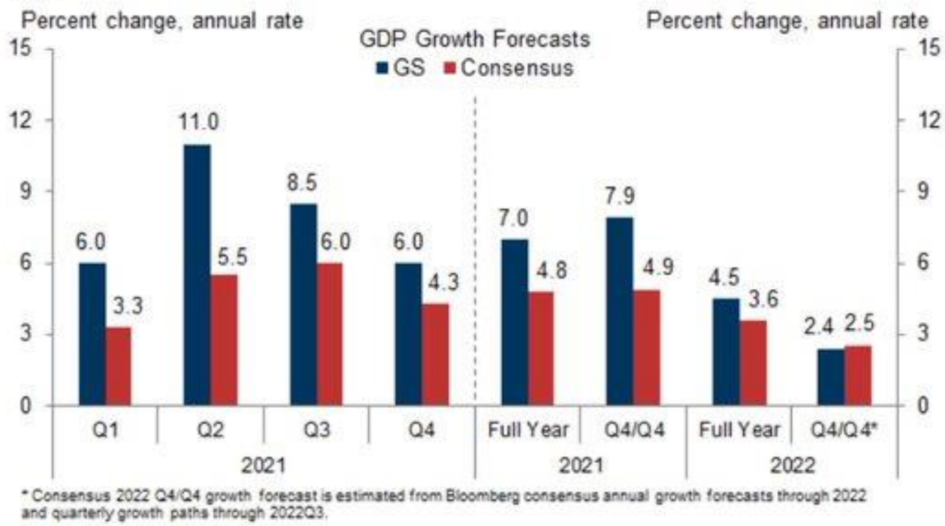


https://www.axios.com/bond-market-optimistic-inflation-e50d49d4-04cc-400a-9598-66e6e5f922c8.html

Alternatively, a negative or inverted yield curve represents a situation in which long-term debt instruments have lower yields than short-term debt instruments of the same credit quality. This is a warning sign of a contracting economy. This happened in 2019 and rightfully predicted the 2020 recession.

Strong economic growth expectations
Eric Rosengren, the Federal Reserve President of Boston, expects the economy to pick up steam this year as vaccines to combat the coronavirus pandemic are rolled out. Goldman Sachs even predicts above consensus economic growth in 2021. The Wall Street firm expects 7% full year gross domestic product (GDP) growth versus the 4.8% consensus.

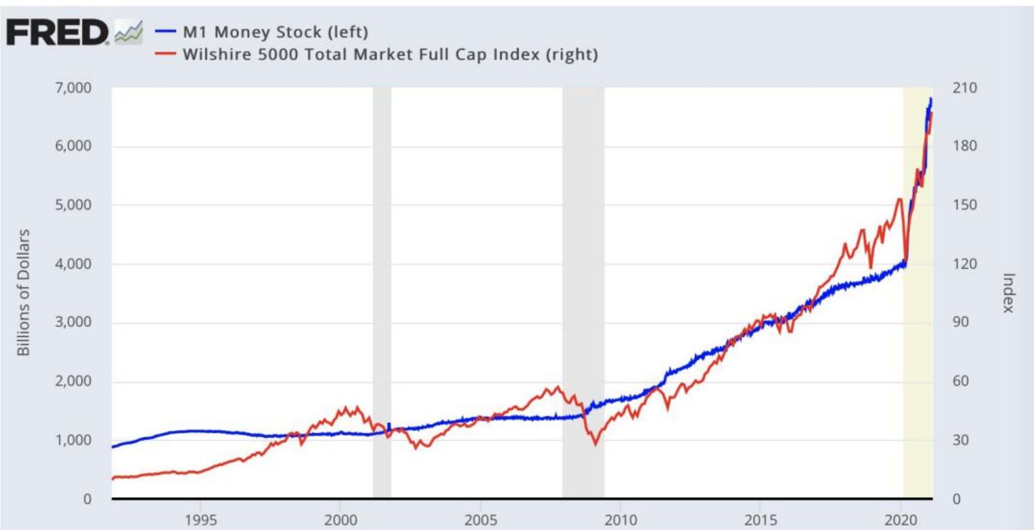
Exhibit 3: We Expect Well Above-Consensus Growth in 2021, but a Sharp Sequential Deceleration in 2022



* Consensus 2022 Q4/Q4 growth forecast is estimated from Bloomberg consensus annual growth forecasts through 2022 and quarterly growth paths through 2022Q3.

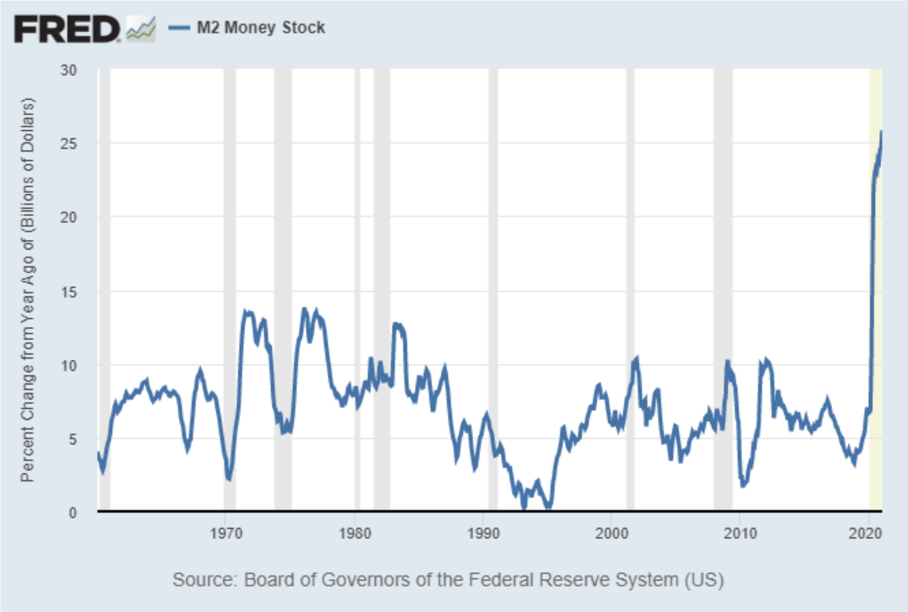
Source: Bloomberg, Goldman Sachs Global Investment Research

M1 money supply (blue line) has increased by 71% in the U.S. last year. Stock markets, like the broad Wilshire 5000 total market index (red line), are joined at the hip and rose to record highs.
M1 is a narrow measure of the money supply that includes currency in circulation (dollars, coins) plus checking account deposits in banks.



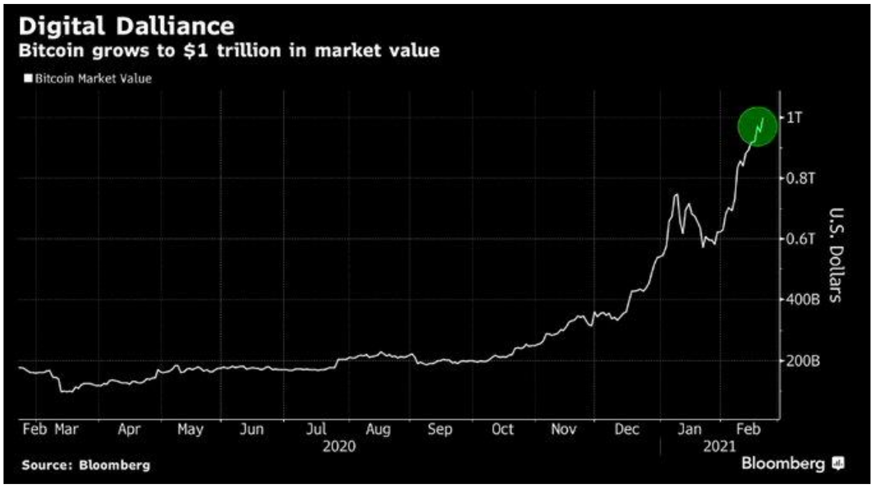
M2 money supply is a broader measure of the money supply that includes M1 plus financial assets, such as savings accounts and bonds.

Here is the historical (60+ years) year-over-year percent change in the broad money supply (M2) for the United States, which shows how unusual this last year was. Main causes for the growth: fiscal government stimulus and money printing by the Federal Reserve Board to buy government bonds.



If we look at major countries' broad money supply growth since the beginning of 2020, the approximate numbers are: United States: 25%, Canada: 18%, UK: 14%, Euro Area: 10%, China: 10% and Japan: 10%.

Bitcoin - The price of a bitcoin quintupled in the past 12 months to over $55,000. That pushed the total market value of the crypto currency past the $1 trillion mark for the first time.



The three sides of risk, by Morgan Housel, August 8, 2020.
https://www.collaborativefund.com/blog/the-three-sides-of-risk/
This is about a real-life changing story that happened 20 years ago today, on 2/21/2001. I have read it many times since last summer: very worthwhile reading.

> "But once you go through something like that, you realize that the tail-end consequences – the low-probability, high-impact events – are all that matter.
> In investing, the average consequences of risk make up most of the daily news headlines. But the tail-end consequences of risk – like pandemics, and depressions – are what make the pages of history books. *They're all that matter*. They're all you should focus on. We spent the last decade debating

> whether economic risk meant the Federal Reserve set interest rates at 0.25% or 0.5%. Then 36 million people lost their jobs in two months because of a virus. It's absurd.
> Tail-end events are all that matter."

*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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