MARATHON INVESTMENTS Newsletter, January 10, 2021

The S&P 500 closed at 3,824.68 on Friday, up 1.8% for the week and the new year. We made it through week one of 2021, but it feels like 2020 never left. An incredibly resilient stock market ignored the following:

- Destructive events and violence at the Capitol in an effort to block Congress in certifying the U.S. presidential election results.
- Democratic gain of the Senate, implicating a blue sweep of the trifecta (Presidency, Senate and House). Even though Democrats have full control in DC, their margins are slim. In the Senate, the majority comes down to a tiebreaker vote, while in the House their majority is the slimmest in decades. This means that radical changes probably won't happen.
- Record numbers of Covid-19 cases and deaths.
- A disappointing job market report.

U.S. employment fell by 140,000 in December - with unemployment rate at 6.7% - as virus cases surged. Leisure and hospitality businesses were hit hard. This is a demonstration that the labor market can't bounce back before the virus is under control. We've lost 9.8 million jobs since February.

Reasons for stock market optimism are expectations that, with Democrats in control, there will be even more stimulus spending to boost the economy. Bond markets took notice and were under pressure. The 10-year Treasury yield rose above 1.1% for the first time since March and the long (30-year) bond yield jumped to 1.87%, leaving the 2-versus-30-year spread at its widest since May 2017 (173 basis points).
"The reason they [rates] are spiking is in anticipation of stimulus," JJ Kinahan, chief market strategist at TD Ameritrade told *Barron's*. "Are we headed to an inflationary scenario?"
A sudden spike in yields could become problematic for stocks. Higher interest rates pressure stock valuations because they erode the value of future corporate profits.
Valuations are high, a reflection of how low interest rates have fallen in historical terms. Stocks in the S&P 500 are trading at an average of 23 times the earnings expected for the coming year, far above the long-term average of about 15 times.

The following table is a review of last year's winners and losers, by LPL Research. Technology stocks were the biggest winners and energy stocks the biggest losers. U.S. growth stocks significantly outperformed value. The S&P 500 was up 16.3%.

2020 EQUITY WINNERS AND LOSERS

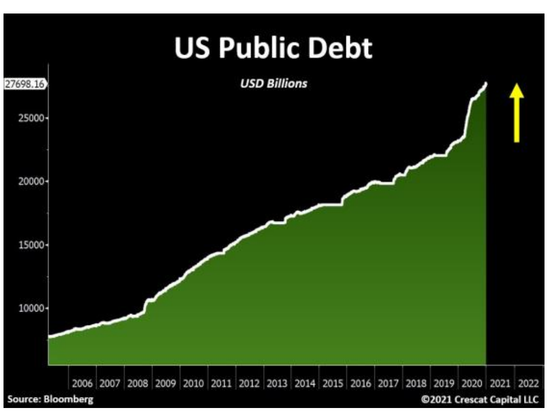
Equity Sectors	2020 Return	Equity Asset Classes	2020 Return
Technology	43.9%	U.S. Large Growth	38.5%
Consumer Discretionary	33.3%	U.S. Mid Cap Growth	35.6%
Communication Services	23.6%	U.S. Small Cap Growth	34.6%
Materials	20.7%	U.S. Large Cap	21.0%
Healthcare	13.5%	U.S. Small Cap	20.0%
Consumer Staples	10.8%	Emerging Markets	18.7%
Industrials	7.6%	U.S. Mid Cap	17.1%
Utilities	0.5%	Large Foreign	8.3%
Financials	-1.7%	U.S. Mid Cap Value	5.0%
Real Estate	-22.9%	U.S. Small Cap Value	4.6%
Energy	-33.7%	U.S. Large Value	2.8%

Source: LPL Research, FactSet, as of 12/31/20
All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Sector performance is represented by the S&P GICS indexes. U.S. asset class performance represented by Russell indexes. Large Foreign represented by MSCI EAFE Index. Emerging markets represented by MSCI Emerging Markets Index.

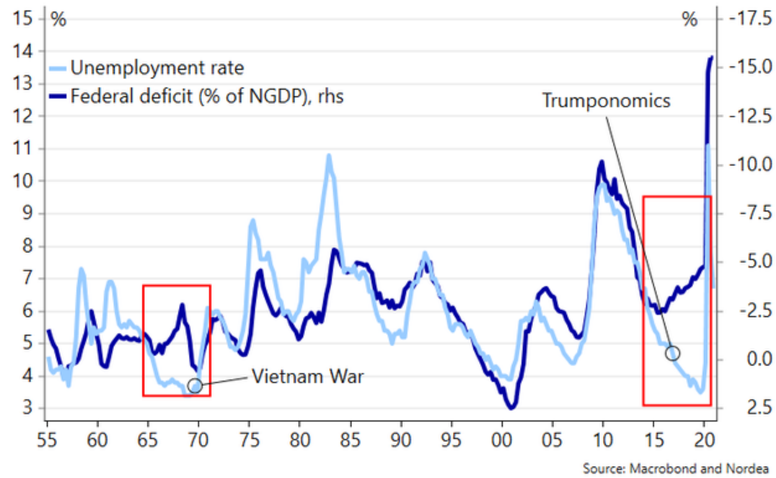
The manufacturing sector remains strong despite COVID. The December Institution of Supply Management (ISM) manufacturing report bounced to its best levels since August 2018. The December reading was 60.7. Any number above 50 indicates growth.

Inflation expectations have been going up significantly just this past week as Congress is expected to boost public spending to drive an economic recovery. The rise in inflation expectations can be seen in the difference between yields on ordinary Treasuries – known as nominal yields – and those on inflation-protected Treasuries – known as real yields. That difference is called a break-even rate. The break-even rate rose above 2% in the past week for the first time since April 2018.

U.S. public debt at $27 trillion now. This includes federal, state and local governments. It looks like this will only go higher.



Trump's administration ran huge deficits despite super low unemployment. This was usually never seen outside of wartimes, like the Vietnam war in the late 60s.



The American Association of Individual Investors (AAII) bullish % 9-week average ramped up sharply. This is a contrarian indicator. In the past 20 years, 11 out of 12 times that this happened, it was followed by a near term fall in the S&P 500.

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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