MARATHON INVESTMENTS Newsletter, January 17, 2021

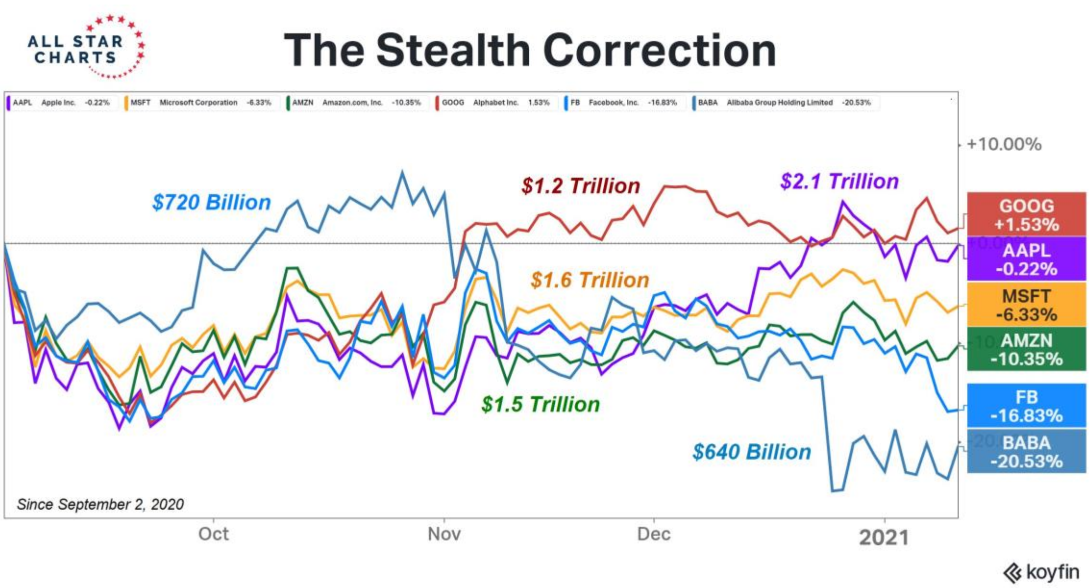
The S&P 500 closed at 3,768.25 on Friday, down 1.5% for the week and up 0.3% year-to-date.

> Powell: Time to raise interest rates is "no time soon."

"No, Thursday's out. How about never—is never good for you?"

> Kansas City Federal Reserve President Esther George, one of the hawks at the central bank's policy table, said that she's worried inflation is brewing and could surprise to the upside. George said that some goods prices are already moving up sharply. This is not the consensus at the Fed. Most of the Fed officials think inflation won't hit the central bank's target, for inflation to "average 2%," for the next three years. Boston Fed President Eric Rosengren expects the asset purchases of the Fed to continue all year. The Fed has been buying $120 billion per month of treasuries and mortgage-backed securities since June in an effort to push down long-term rates. Rosengren also expects the Fed would hold its benchmark interest rate near zero all year. "With substantial fiscal and monetary support, I expect a robust recovery starting in the second half of this year," Rosengren said.

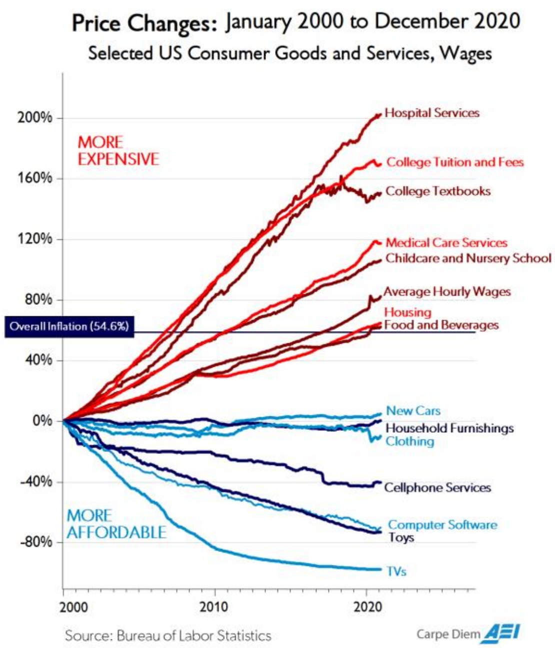
A stealth correction is brewing in the biggest stocks. Trading has moved away from high-growth tech to economically sensitive stocks. Stock prices of Facebook, Amazon and Microsoft have declined since the beginning of September, while the S&P 500 has gained 8%. The market capitalizations (number of shares outstanding times stock price) are shown in the graph: Apple has the largest market cap of $2.1 trillion, followed by Microsoft's $1.6 trillion and Amazon's $1.5 trillion.



A proposed $1.9 trillion coronavirus relief stimulus package from President-elect Joe Biden may prove a double-edged sword for investors, sustaining optimism for further economic revival while raising worries over how the United States will pay for it all.

> "Right now, markets are celebrating the additional stimulus and see it as a stronger bridge to a fully reopened economy," said Jeff Buchbinder, equity strategist for LPL Financial." On the other side of it, there's the chance that markets will have to pay for this in the form of sharply higher interest rates or tax hikes that could cap equity valuations," he said.

Price changes in the U.S. since the beginning of this millennium (2000). Health care and education are very inflationary (more expensive), while technology, cellphone services and TVs are very deflationary (more affordable).



> Goldman Sachs' chief U.S. equity strategist David Kostin projects that the S&P 500 will end 2021 at 4,300 points (a gain of 14%). A further 7% growth in the index is projected for 2022, reaching 4,600. Underlying are bullish expectations of 6.4% real GDP growth (thanks to more stimulus) and 31% earnings growth in 2021 after falling about 4% and 17% respectively in 2020.

This seems to be an optimistic point of view.

Billionaire investor Leon Cooperman is cautious about the stock market's prospects in 2021. "The Federal Reserve is forcing people out on the risk curve and driving stock prices (up) … it's not going to end well."

The Emerging Markets ETF (EEM) finally surpassed the 2007 peak last week. It is equally important to look at it relative to the S&P 500 (SPY) where a reversal of a decade-long downtrend appears to have only just begun. The reason is that the markets are expecting a rebound in global growth.

Japan is less fortunate. Japan's blue-chip Nikkei 225 index is at 30-year highs but hasn't climbed back to where it was at the peak in December 1989. The Nikkei 225 closed at 28,519.18 on Friday, still more than 10,000 points below its all-time high of 38,915.87 on 12/29/1989, but that was an enormous bubble.

In the summer of 1987, I was invited to a job interview at Philips Pension Fund in the Netherlands to manage their Japanese equity portfolio. Phew, I'm glad I chose to manage U.S. equities at mutual fund Robeco instead, but then I got baptized by fire during the crash of October 1987.

Is a blue wave bearish for the stock market? Not in the past, according to LPL Research.
Since 1950, the S&P 500 returned on average 9.1% per year in years when Democrats controlled the White House and Congress. 78% of those years had a positive return.

Should A Democratic Sweep Scare Markets? Probably Not

S&P 500 Index Returns When Democrats Controlled The White House and Congress

Year	President	S&P 500 Index Return
1951	Harry Truman	16.3%
1952	Harry Truman	11.8%
1961	John F. Kennedy	23.1%
1962	John F. Kennedy	-11.8%
1963	John F. Kennedy/Lyndon B. Johnson	18.9%
1964	Lyndon B. Johnson	13.0%
1965	Lyndon B. Johnson	9.1%
1966	Lyndon B. Johnson	-13.1%
1967	Lyndon B. Johnson	20.1%
1968	Lyndon B. Johnson	7.7%
1977	Jimmy Carter	-11.5%
1978	Jimmy Carter	1.1%
1979	Jimmy Carter	12.3%
1980	Jimmy Carter	25.8%
1993	Bill Clinton	7.1%
1994	Bill Clinton	-1.5%
2009	Barack Obama	23.5%
2010	Barack Obama	12.8%
	Average	9.1%
	Median	12.0%
	% Positive	77.8%

Source: LPL Research, FactSet 01/06/21 (1950 - Current)
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

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Thank you for your interest, Hans

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