MARATHON INVESTMENTS Newsletter, March 14, 2021

The S&P 500 closed at 3,943.34. on Friday, up 2.6% for the week and up 5% year-to-date.
Technology (growth) stocks recovered last week, but so far this year, value and cyclical stocks have led the market, as investors are betting that the vaccine rollout and fiscal stimulus will help the economy's reopening. Over the previous 10 years, the value style underperformed growth dramatically, but investors don't have to make a choice between the two investment styles: a diversified, blended portfolio is the solution, as long as one doesn't overpay for individual stocks.

Helicopter money

Do you hear that? It is the sound of the world's biggest helicopter all set for take-off, ready to dump piles of cash on the people down below. The dough will soon arrive now that President Joe Biden has signed the American Rescue Plan into law.

The name "helicopter money" was first coined by the American economist Milton Friedman in 1969, when he wrote a parable of dropping money from a helicopter to illustrate the effects of monetary expansion during a recession. In November 2002, the concept was revived by Ben Bernanke, then Federal Reserve Board governor, suggesting that helicopter money could always be used to prevent deflation.

With the exception of supporting struggling families and small businesses, in addition to Covid-19 vaccination efforts, I think the majority of the $1.9 trillion stimulus is a waste of money, especially since the economy is already on a solid uptrend. There are tradeoffs, like who's going to eventually foot the bill for such a generous bag of goodies and then there's inflation. Government deficits are taxes on future generations.

The U.S. budget deficit hit a record $1 trillion in the first five months of the fiscal year. The October through February deficit was 68% larger than the $624 billion deficit recorded during the same period last year. For the 12 months that ended in February, the deficit totaled $3.5 trillion, or 16.5% as a share of economic output (GDP). The deficit could reach over $4 trillion this year. We're talking real money now.

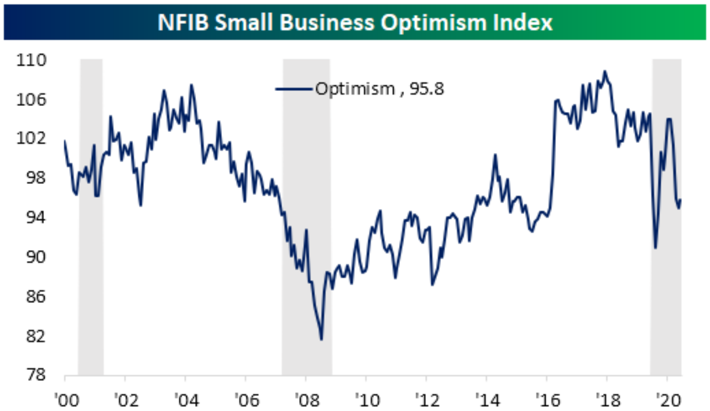
Inflation

U.S. consumer prices increased a seasonally adjusted 0.4% in February from January and 1.7% in the last 12 months. Gasoline prices jumped 6.4% in February over the previous month. The so-called core index, which excludes the often-volatile categories of food and energy rose 0.1% in February and 1.3% from the year prior.

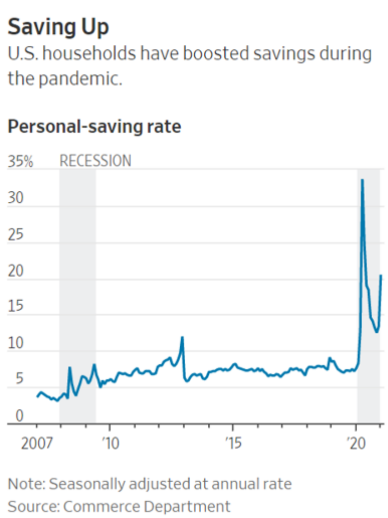
Near-term inflation is expected to pop sharply due to easy year-over-year comparisons. However, the Fed will dismiss it as transient to keep the liquidity pumps open. The Fed might be right, but the question is how the bond market will interpret it if we see headline inflation numbers above 3% in April and May.

Bank of America conducted a global survey to find out if companies are planning to boost prices in the near term? The answer: a resounding yes, led by companies in the materials, consumer staples and energy sectors.

While most data on the economy continues to bounce back, small business sentiment remains stuck in the mud.



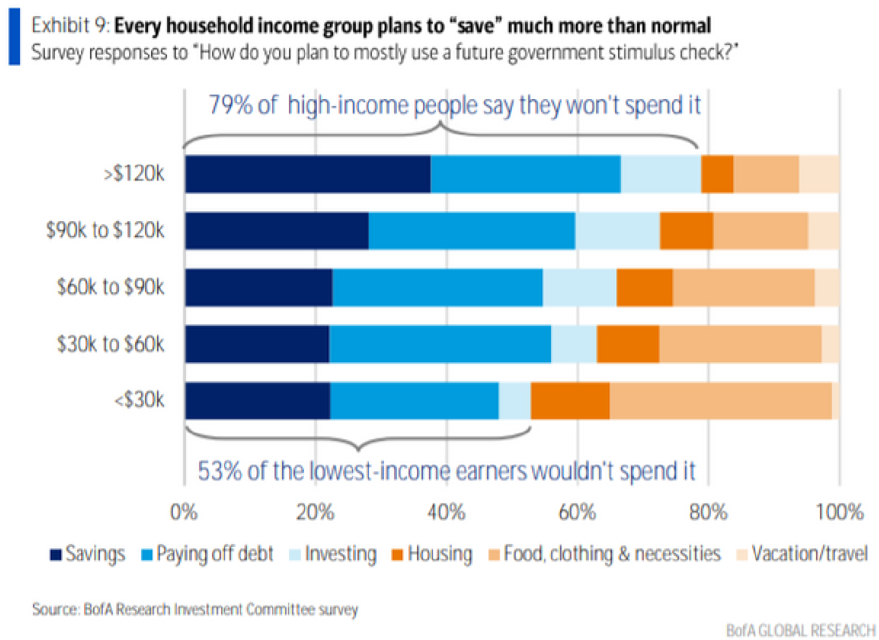
What are people doing with their stimulus checks?
Those stimulus checks look like they're being saved at a higher rate than expected. Household savings totaled $3.9 trillion last month, up from $1.4 trillion last February. The personal savings rate is 20%, which is high compared to history. The savings rate is the percentage that a person deducts from their disposable personal income to set aside as a nest egg or for retirement.



https://www.wsj.com/articles/consumer-spending-personal-income-january-2021-11614293378

Some are questioning whether the new round of stimulus will overheat the economy. Bank of America's research investment committee says it won't and brings some new data to the table. First, it cited data from the Census Bureau showing that of the households who received a $600 stimulus check in the first half of February, 73% saved or paid down debt. Consumer credit also fell in January.

Bank of America surveyed more than 3,000 people to ask how they would spend the new stimulus check. 79% of higher-income people say they won't spend it and would add it to savings, reduce debt or invest it. Even in the lowest-income category, 53% say they plan to either save, pay off debts or invest. 47% will go to housing, food, clothing & necessities, and vacation / travel.



A Deutsche Bank survey says young people are going to spend almost half of their stimulus checks on stocks.

Quantitative easing

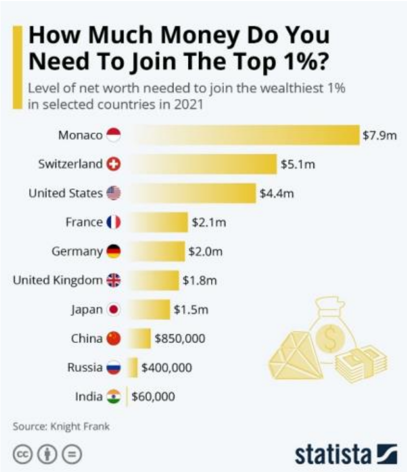
You might wonder why the Federal Reserve's Federal Open Market Committee continues its emergency pace of $120 billion a month of quantitative easing asset purchases of Treasury securities and of mortgage-backed securities, as the economy is tracking a near-complete recovery to its pre-pandemic level. The following article about Henry Kaufman addresses the same question and danger.

This article in Barron's is an interesting-few-minutes read. Back in the days when I was a whippersnapper portfolio manager at a large mutual fund in the Netherlands, Henry Kaufman was a long-time economist at Salomon Brothers. I once attended a lunch meeting where he spoke. Kaufman was known for his bearish views and for that reason they called him Dr. Doom. Until he went out on a limb and reversed his longstanding bearish outlook on bonds in 1982, which was the start of a nearly 40-year bull market in bonds.

https://www.barrons.com/articles/wall-streets-dr-doom-sees-danger-in-the-markets-and-economy-51615566219?mod=past_editions

Today, the 93-year old Dr. Doom says the equity market is highly dependent on the continuation of monetary ease. I cannot agree more. He says that if there was a hint that the Fed would reduce its $120 billion a month purchase of treasury securities, the stock market might have a severe correction.
Investors have short memories, but you might recall the "taper tantrum" of the 2013 surge in U.S. Treasury yields, resulting from the Federal Reserve's announcement of future tapering of its policy of quantitative easing.

To be in the top 1%, you need $7.9 million in Monaco, $4.4 million in the U.S. and $60,000 in India.



On this day (March 14) in 1879, Albert Einstein was born. He died when he was 76 years old. He was one of the greatest physicists of all time and is widely known for the theory of relativity.

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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