# MARATHON INVESTMENTS Newsletter, March 21, 2021

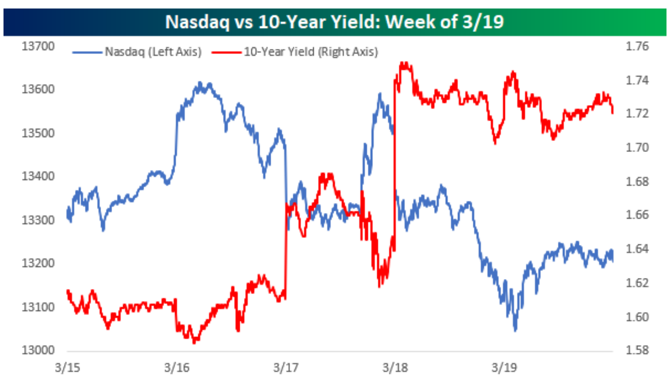
The S&P 500 closed at 3,913.10 on Friday, down 0.8%% for the week and up 4.2% year-to-date.

**Higher growth + higher inflation = easy money?**

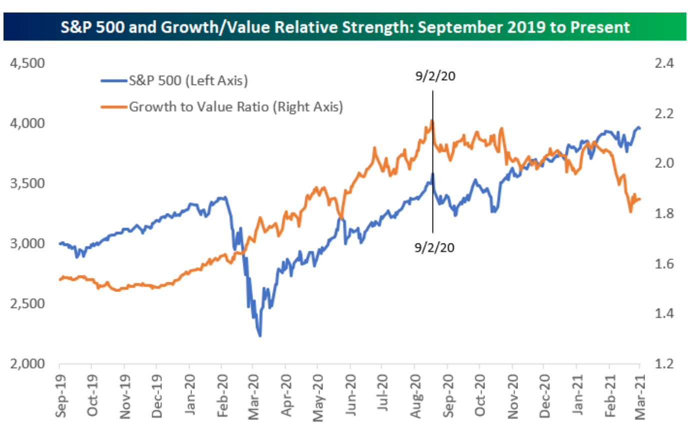
The Federal Reserve updated their projections at last week's Federal Open Market Committee (FOMC) meeting with a substantial move higher in anticipated economic growth (6.5% in 2021) and inflation (2.4% in 2021). The unemployment rate is expected to decline to 4.2% this year. Historically, such expectations would have always been accompanied by a tightening in policy, but that was the past.

In a survey of fund managers, inflation replaced COVID-19 as the primary market risk. Supply chain bottlenecks, higher oil prices and rising budget deficits are inflationary. The bond market worries that the goldilocks monetary policy of the Fed is too accommodative and too dovish (i.e. keeping the Fed funds rate too low at near zero). Key takeaway from the FOMC meeting: the Fed will only act on 'actual' progress, not on 'forecast' progress. Fed chair Powell re-affirmed that they're not going to front-run inflation, not going to consider a taper of Quantitative Easing (QE), which is their $120 billion monthly bond buying program, or a rate hike until their inflation measures spend some time above 2%.

Interest rates continue to act as the tail wagging the technology heavy Nasdaq. All week long, when yields rose, the Nasdaq fell, and when yields fell, the Nasdaq rallied. During the week, the yield on 10-year Treasuries rose more than 10 basis points to 1.73%. This year, the surging 10-year has taken the wind out of the sails of the most richly priced stocks.




September 2nd, 2020 marked a major turning point where the market started singing to a different tune. On a relative basis, value stocks have been performing better than growth stocks. After a decade of growth outperformance, cyclical stocks like banks, airlines, industrial and energy companies have more fans than they've had in a long time.

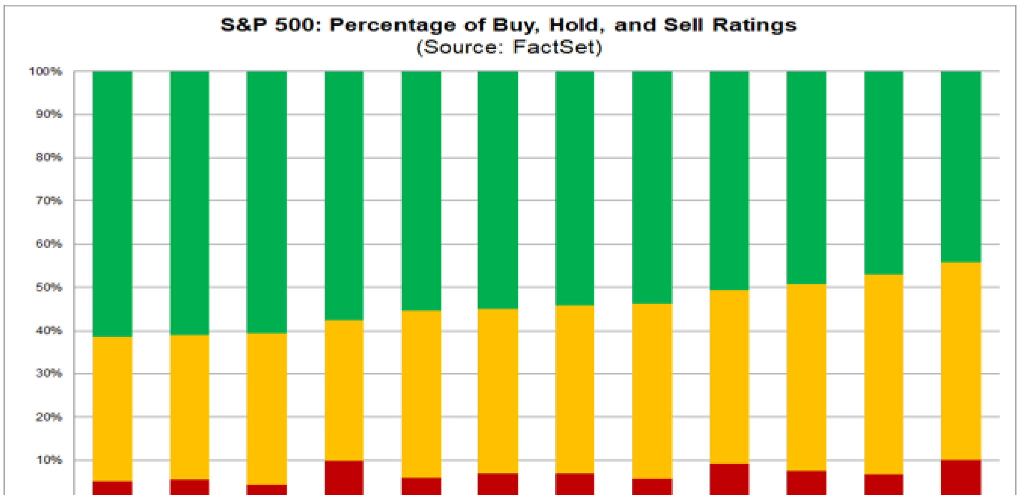


The Federal Reserve is ending a reprieve that had eased capital requirements for big banks. The central bank adopted the reprieve at the start of the pandemic a year ago in an effort to boost the flow of credit from banks to consumers and businesses and also to ease strains in the Treasury market. The expiration of this relief could result in fewer Treasuries held by banks in the future.

Rating agency Standard & Poor's affirmed the AA+ rating of the U.S. The outlook is stable despite exploding debt.
Federal debt held by the public stands at $21.8 trillion, up 24.5% from a year ago. The Fed owns 21% of the Treasuries market, up from 13% a year ago.

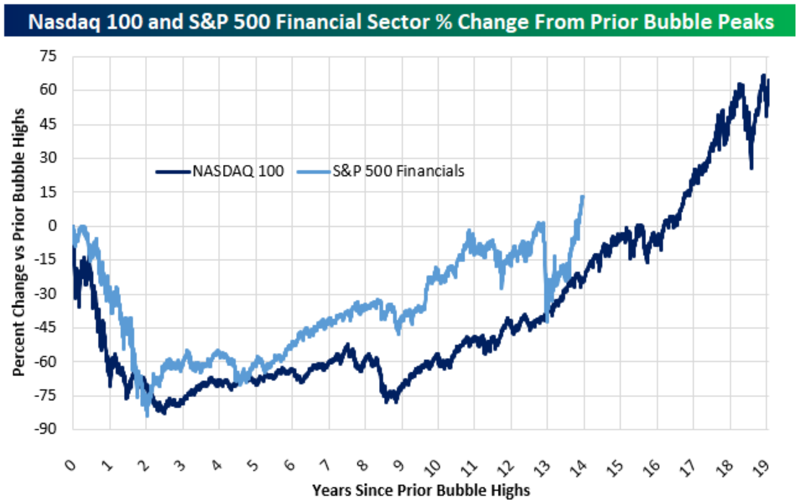
Railroad merger: Canadian Pacific (CP) is buying Kansas City Southern (KSU) for $275 a share in a cash and stock offer, a 23% premium above Friday's closing price. The deal is valued at $25 billion.

According to FactSet: Heading into Q2 2021, analysts have the highest % of buy ratings (green bars) on the Health Care, Information Technology and Energy sectors (each 61%) and have the lowest % of buy ratings on the Consumer Staples (44%) sector.

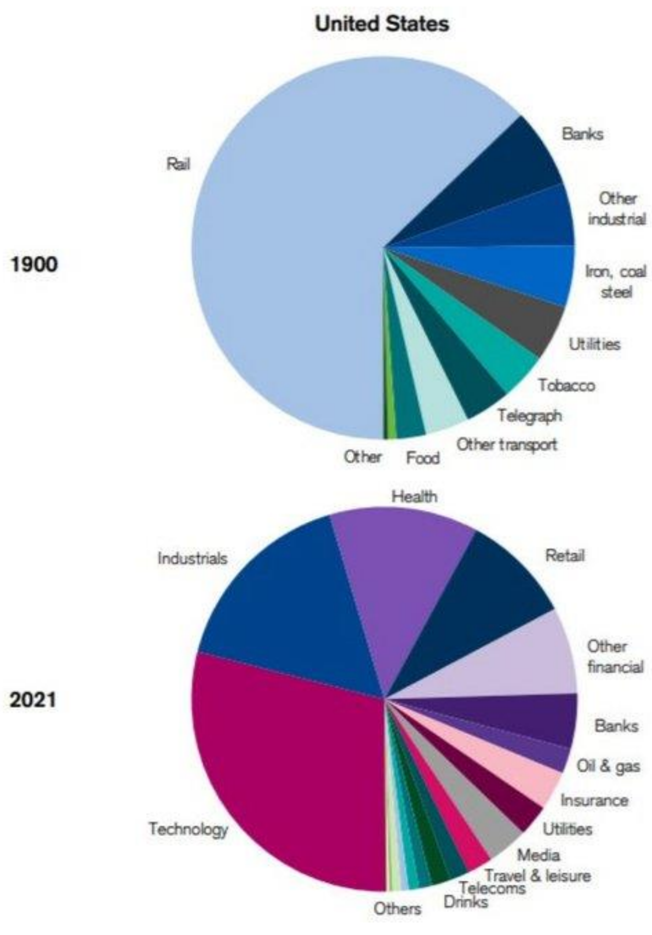



| | Health Care | Info. Tech. | Energy | Comm. Services | Consumer Disc. | S&P 500 | Utilities | Materials | Industrials | Financials | Real Estate | Consumer Staples |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Buy | 61% | 61% | 61% | 58% | 55% | 55% | 54% | 54% | 51% | 49% | 47% | 44% |
| Hold | 33% | 33% | 35% | 33% | 39% | 38% | 39% | 40% | 40% | 43% | 46% | 46% |
| Sell | 5% | 6% | 4% | 10% | 6% | 7% | 7% | 6% | 9% | 8% | 7% | 10% |

The financial sector finally took out its pre-Financial Crisis high recently after nearly 14 long years.
The chart below looks at how long it took for the Nasdaq 100 to take out its Dot Com bubble high compared to how long it took for the S&P 500 Financial sector to take out its pre-Financial Crisis high. As shown, both indices fell roughly the same amount (about 80%!) when they crashed. It took nearly 17 years for the Nasdaq 100 to finally take out its Dot Com bubble highs, while it took nearly 14 years for the financial sector to take out its pre-Financial Crisis high.
The financial sector has just recently broken out convincingly above its prior highs. When the Nasdaq 100 finally broke out to new highs, it kept on running higher by another 60%.




In 1900, the U.S. stock market was highly concentrated with more than 60% of the market capitalization in the railroad industry. Iron, coal and steel were about 7% of the market cap. The sector weightings have changed greatly over the years as the following pie charts show. There were no technology and health sectors then, which are now the largest sectors. Understanding this fact is important in how to approach investing.




"Change is the law of life and those who look only to the past or present are certain to miss the future." - President John F. Kennedy

The following percentages are from State Street Advisors, the creator of the SPDR S&P 500 ETF Trust, an exchange-traded fund (ETF) that seeks to track the performance of the S&P 500. This update is from December 22, 2020. Two years ago, State Street made some changes, like switching Facebook and Alphabet to the communication services sector from information technology, otherwise technology would have been even bigger today.

S&P 500 sector weightings (approximately):
Information technology: 27.60%
Health care: 13.44%
Consumer discretionary: 12.70%
Communication services: 10.79%
Financials: 10.34%
Industrials: 8.47%
Consumer staples: 6.55%
Utilities: 2.73%
Materials: 2.64%
Real estate: 2.41%
Energy: 2.33%

The S&P 500 is heavily weighted toward technology, health care, and consumer discretionary stocks (Amazon). Meanwhile, there is not much representation among utilities, real estate companies, or those involved in producing and selling of raw materials. Look at energy, the smallest sector at about 2.5%, down from a high of 15% in 2014.

*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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