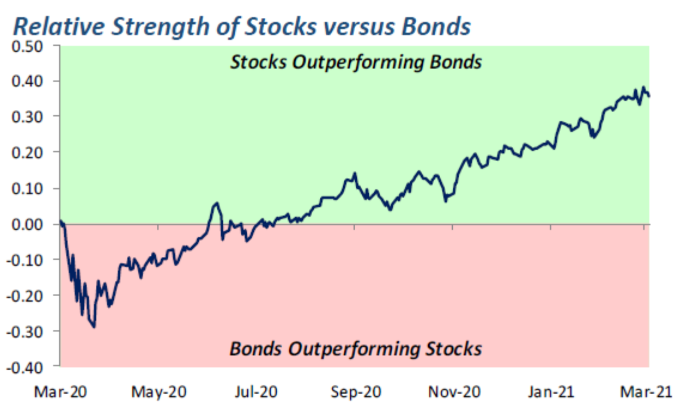
MARATHON INVESTMENTS Newsletter, March 7, 2021

The S&P 500 closed at 3,841.94 on Friday, up 0.8% for the week and up 2.3% year-to-date. It was a volatile week, but the S&P 500 is still close to its all-time high. Cyclical stocks are outperforming highly valued growth companies. Bond yields remain on an upward trend as the market expects a more robust economic recovery. All eyes are on the Fed, but they will stay put for a while: the markets have a long history of prematurely anticipating Fed rate hikes.

The Senate passed a $1.9 trillion economic relief and stimulus bill on Saturday, paving the way for extensions to unemployment benefits, another round of stimulus checks and aid to state and local governments. The House of Representatives is expected to pass the bill later this week.

Who's going to pay for that increase in government debt? I am not worried about the kids having to pay off the national debt. They'll just pass it onto their kids. It's fine, sure. Next: a $3 trillion infrastructure bill.

Fixed income did well at the start of the pandemic, but since the end of March last year, stocks outperformed bonds.



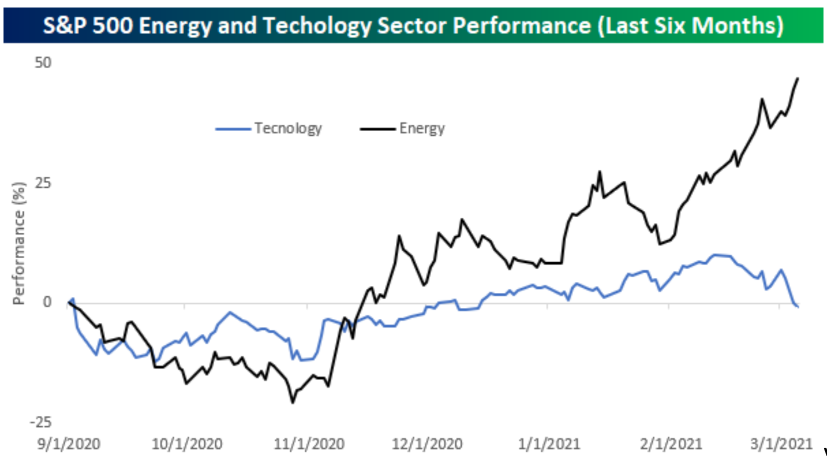
"Fixed income investors worldwide, whether pension funds, insurance companies, or retirees, face a bleak future …bonds are not the place to be these days." Berkshire Hathaway's Warren Buffett in his annual letter.

The U.S. created 379,000 new jobs in February, the biggest gain in four months, in what's likely to be a preview of a surge in hiring in the months ahead as most people get vaccinated and the economy fully reopens. The increase in hiring was concentrated at businesses such as restaurants, hotels and retailers as states eased restrictions on customer limits. The unemployment rate declined to 6.2%. Employment is still 9.5 million lower than a year ago.

U.S. manufacturing activity continued to expand at a solid pace in February. The Institute for Supply Management's (ISM) manufacturing index rose 2.1 points in February to a two-year high of 60.8, with any number above 50 implying economic expansion.
According to the ISM report, supply chain bottlenecks are emerging. Supply chains for many products more or less stopped in the Spring of 2020 due to the lockdowns. Companies pulled back their production levels because demand typically wanes in a recession. However, consumer demand stayed strong thanks to the fiscal stimulus programs that provided income support. Now there are shortages in many categories, like semiconductors, appliances, autos, houses, lumber, steel, chemical products, etc. Those are putting upward pressure on prices and are the reasons why markets are afraid of accelerating inflation.

The productivity of American workers fell by a 4.2% annual rate in the fourth quarter, marking the biggest decline in 39 years. Output, or the amount of goods and services produced, increased by 5.5%, but hours worked declined at an annual 10.1% pace. Productivity is determined by the difference between output and hours worked. Unit-labor costs jumped by a 6% annual pace in the fourth quarter. Higher productivity is the key to a better standard of living. It leads to greater business profits and higher household incomes without generating inflation.

Energy stocks have been outperforming technology stocks in the past six months. Last week, oil stocks jumped 10% on the news that OPEC and Russia kept most of their production cuts in place.



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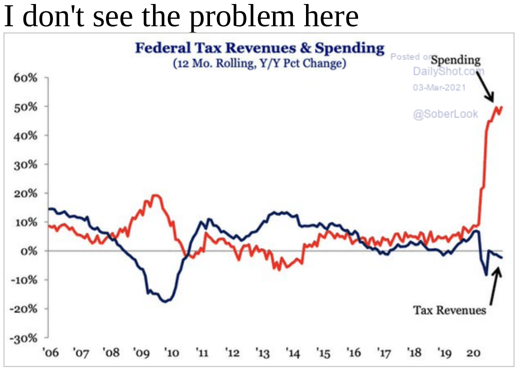
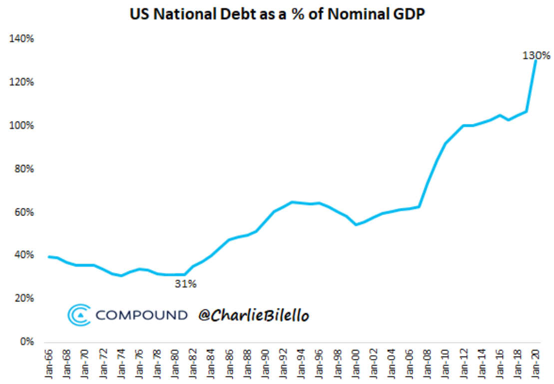
I don't see the problem here

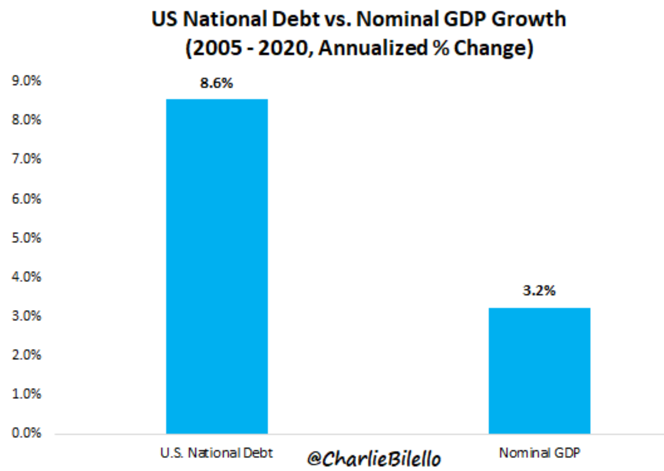


The U.S. national debt (federal, state, local) moves above $28 trillion for the first time, increasing $4.6 trillion over the last year. Next stop in short order: $30 trillion after $1.9 trillion relief bill. It is amazing how many people believe that deficits don't matter. It is a good thing rates are low. I'm not sure how we would handle this much debt at 10% interest rates.

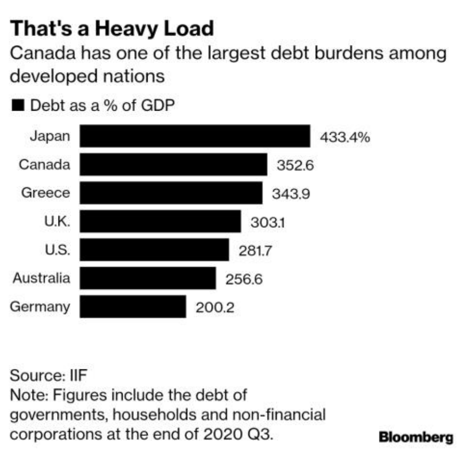
As a percentage of economic output (GDP), our national debt has never been higher, steadily increasing over the past 40 years from 31% in 1980 to 130% today.



Why is the ratio going up? We have been borrowing at a faster rate than the economy is growing. Over the last 15 years, the US national debt has increased at a rate of 8.6% per year versus an increase in US economic growth (nominal GDP) of 3.2% per year.



Canada has one of the largest debt burdens among developed nations. These figures include the debt of governments, households and non-financial corporations.



Hyper-inflation pushes Venezuela to print 1,000,000 Bolivar bills. Venezuela's central bank will begin circulating new 200,000, 500,000 and 1,000,000 bills to "fulfill the current economy's requirements." The 1,000,000 note, the largest in the nation's history, is worth only 53 U.S. cents, half of one U.S. dollar. Inflation

soared 2,600% in the last 12 months in Venezuela. That means the purchasing power of the bolivar declined twenty-six hundred percent!
Most citizens turn to the U.S. dollar for everyday transactions, but Venezuelans continue to rely on bolivar bills for public transportation and fuel. About 66% of transactions across the country are estimated to be made in foreign currencies like the U.S. dollar.
President Nicolas Maduro has said he plans to move to a fully digital economy this year, following three years of hyperinflation that have prompted the nation's mint to issue higher-denomination notes that are quickly rendered all but useless.

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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