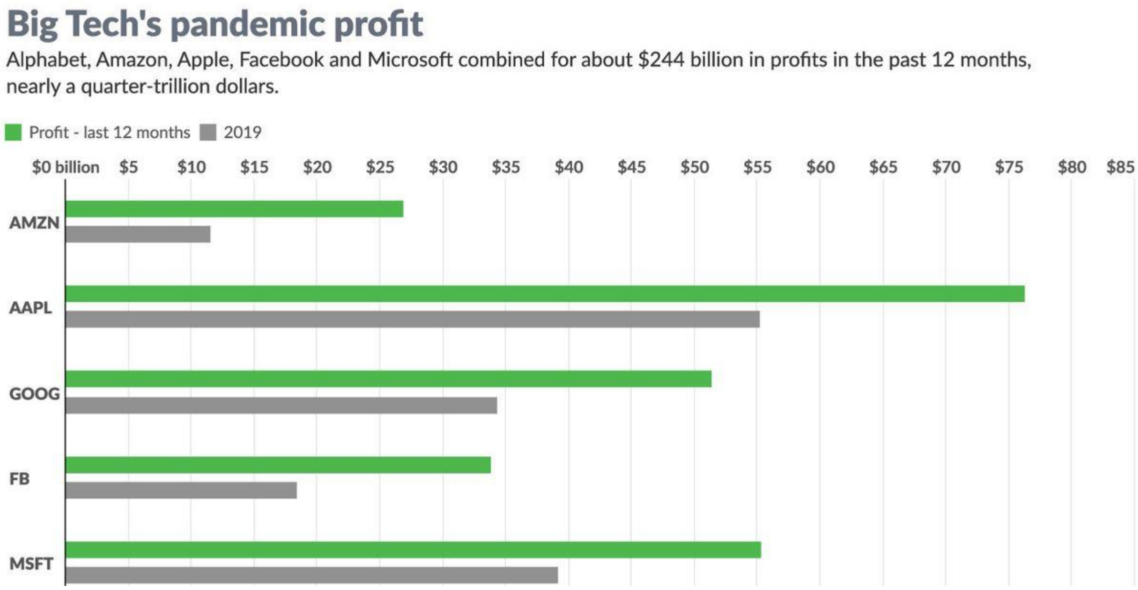
MARATHON INVESTMENTS Newsletter, May 2, 2021

The S&P 500 closed at 4,181.17 on Friday, flat for the week and up 11.3% year-to-date. April: +5.2%.

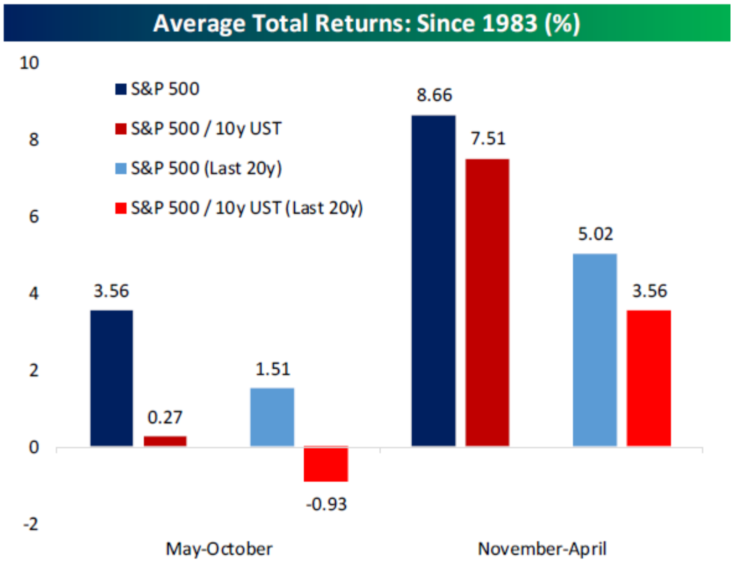
About 60% of the S&P 500's companies have reported Q1 earnings. 86% of those companies reported a positive earnings-per-share surprise, which is a very high percentage, if not a record, historically.
Yet, the S&P 500 remained flat in the past two weeks, and the Nasdaq declined last week, despite blow-out results from the mega technology companies.
Additionally, Apple and Alphabet announced stock buybacks of $90 billion and $50 billion respectively, corresponding with 4.1% and 3.1% of their respective market capitalizations, which is statistically significant.



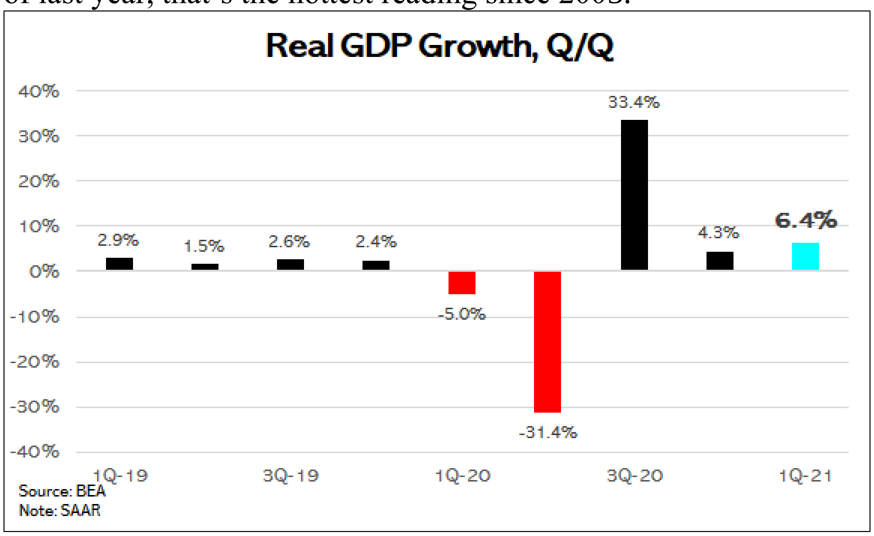
Amazon, Apple, Alphabet and Microsoft were all started in a garage. Each of these companies is now worth more than $1 trillion. What's the lesson? If you want to start a great company, you need to first have a garage.

Sell in May and go away

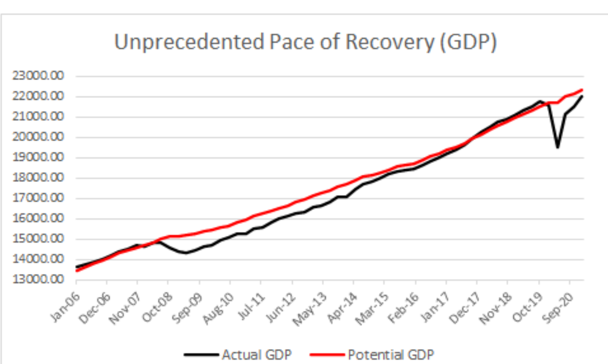
It seems like the easy money has been made in the stock market, so expect some consolidation this summer. Many YOLO (you only live once) speculators believe that stocks only go up. Sure, they only go up – until they don't. This is a good segue to an old market aphorism that says to "sell in May and go away." The real relevance of this adage lies in the statistics behind it. The chart below shows 37 years of S&P 500 returns from the May through October period versus the November through April period. You can be the judge on which period has historically performed the best and let's take the whole summer off.



The Bureau of Economic Analysis revealed that the estimate of real first quarter Gross Domestic Product (GDP) ballooned by 6.4% on an annualized sequential basis. Outside of the lockdown-induced snap-back third quarter of last year, that's the hottest reading since 2003.



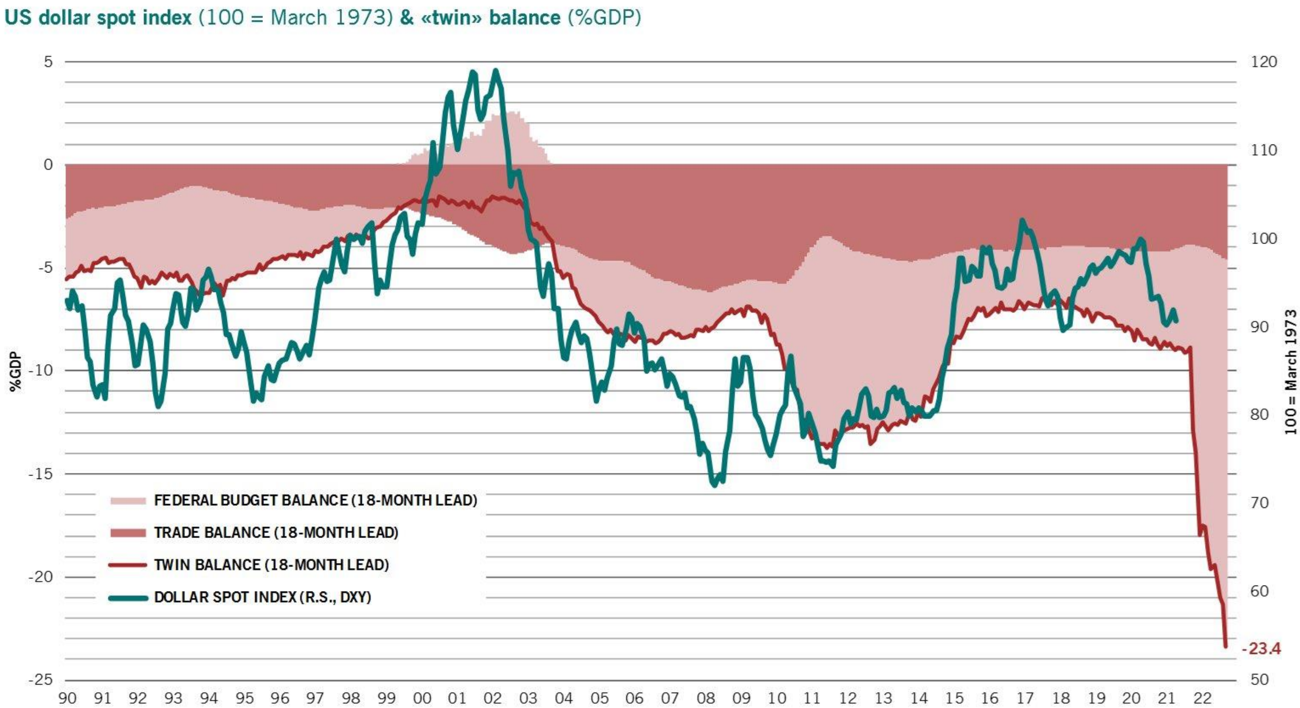
GDP is now within 1% of its pre-pandemic level in Q4, 2019. The engine for this growth is again the American consumer, which counts for approximately 2/3 of the economy. The stage is set for robust growth in Q2 and further price pressures. In the near term, that inflation concern will be like a cloud hanging over the markets. It took 10 years to get back to potential GDP trend following the Great Financial Crisis (GFC). It will take us a little bit over 1 year to get back to trend this time. Potential GDP is an estimate of the value of the output that the economy would have produced if labor and capital had been employed at their maximum sustainable rates.



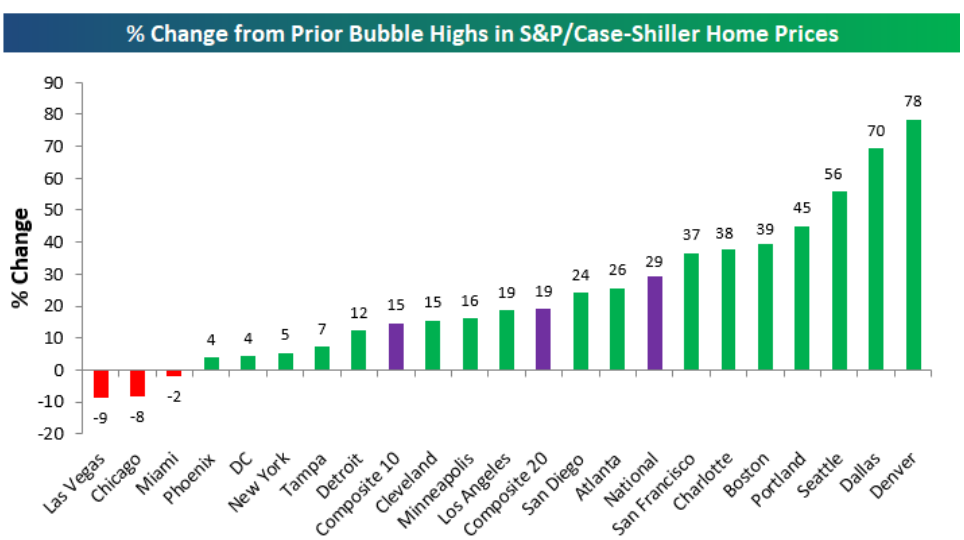
The eurozone is a different story, however, and is officially back in a decline as Covid-19 lockdowns sent euro countries' Q1 GDP into the red, down 0.6%.

Propelled by federal stimulus checks, household income rose at a record pace of 21.1% in March. Consumer spending increased 4.2%. Americans will have cash to spend as the personal savings rate surged to 27.6% in March.

U.S. twin deficits (budget and trade deficits) and the U.S. dollar. The ballooning U.S. budget deficit does not look good for the dollar (green line) going forward. In the graph, the dollar lags the deficits by 18 months.



We were given more data on the hot real estate market when Case Shiller home prices were released on Tuesday. The chart below shows where home prices in various cities stand now versus their all-time highs made during the housing bubble of the mid-2000s. Remarkably, all but three cities have now seen prices eclipse their prior bubble highs.



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Fed Chair Powell nodded to the fact that companies are having a hard time sourcing employees. It's another acknowledgment that wage inflation could become problematic down the line.
Warren Buffett: "We are seeing substantial inflation and are raising prices." The Fed: "We see the rate of inflation at 2% per year." Who do you trust, the Fed or the greatest investor in the world?

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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