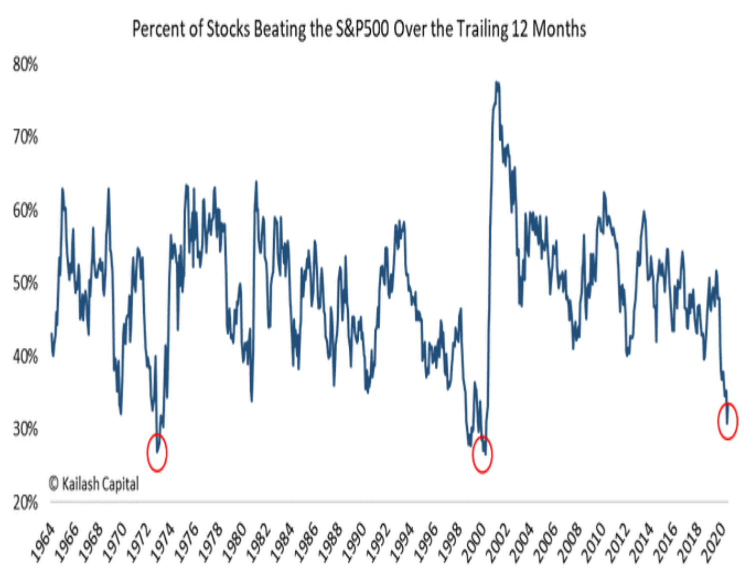
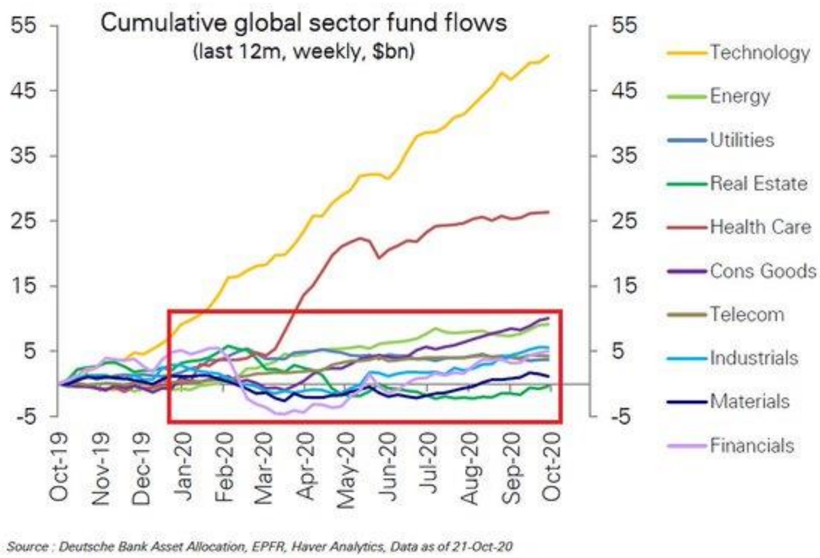
MARATHON INVESTMENTS Newsletter, November 1, 2020

The S&P 500 closed at 3,269.96 on Friday, a decline of 5.6% for the week, down 2.8% in October, but the index still managed to be up 1.2% year-to-date. Declines since mid-October have left the S&P 500 right at an important technical support level.
Election uncertainty, global covid-19 resurgence and stalled fiscal stimulus are weighing on the market. Technology companies reported strong Q3 earnings, but the market reacted negatively on cautious guidance from Apple, Microsoft, Facebook, Amazon, etc. as the stocks were priced for perfection. The market does not like uncertainty and will not react well if the election is contested and the counting of ballots takes days in key swing states.

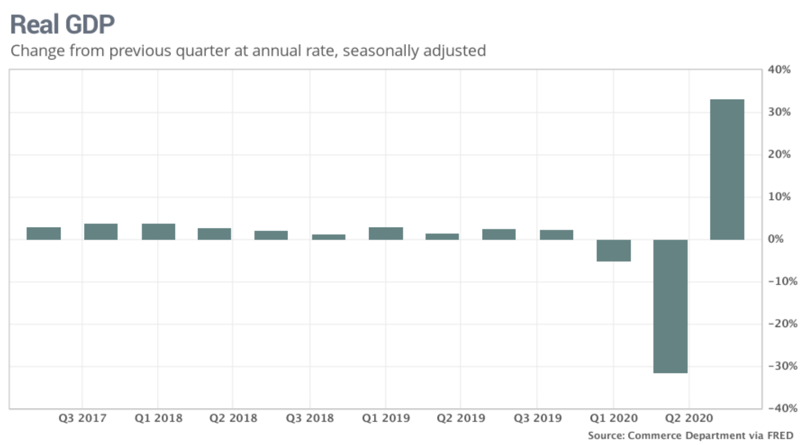
This is still a lop-sided market. The stock market breadth is narrow and weak. Only 30% of stocks beat the S&P 500 over the trailing 12 months. Major market tops occurred in 1972/73 and 1999/2000 period, hmm….



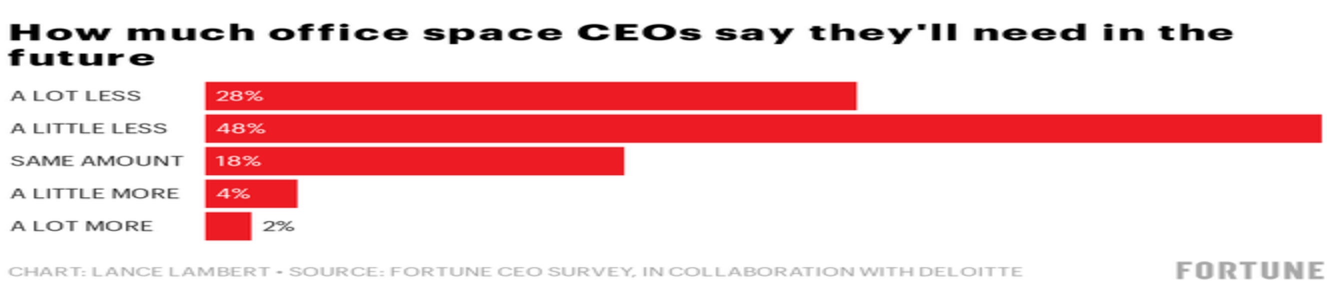
Technology keeps getting non-stop record flows: nearly $50 billion YTD. Health care is a distant second. There is little net buying in the other key sectors – a winner-take-all market.



Supported by the Cares Act and massive government stimulus, real GDP increased 7.4% (or 33.1% annualized) in the third quarter over the prior quarter, following a 9% (31.4% annualized) quarter-to-quarter decline in the second quarter. The US economy has recovered to 96.5% of its pre-pandemic level of output. 2020 likely goes down with a negative 3.5% to negative 4% GDP growth. The obvious caveat is that when you drop 30% and you gain 30%, you're still below where you started.

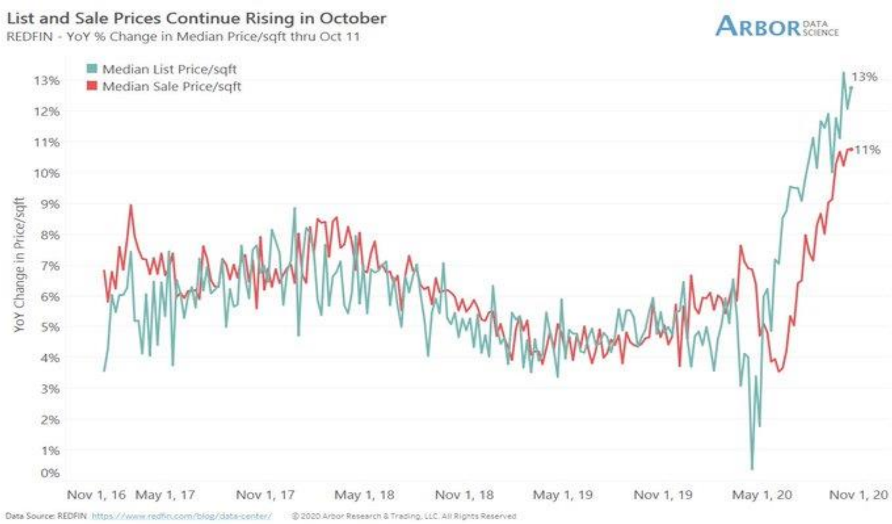


76% of American CEOs say they will need less office space in the future, only 6% say they need more.

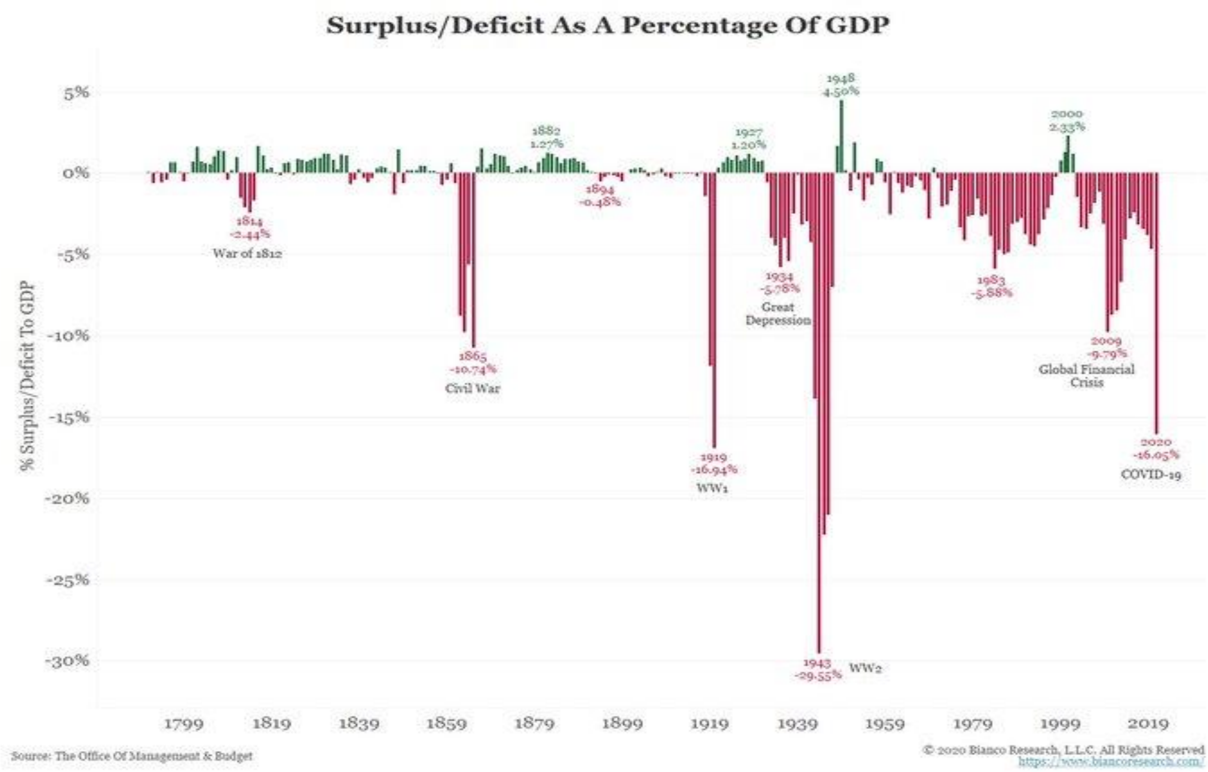


The Fed has moved to make its emergency lending program for businesses and nonprofits available to more small and midsize firms, as Congress remains at an impasse over additional economic relief. It is lowering the minimum loan amount under its "Main Street" program to $100K from $250K.

Home sale prices (+11% YOY) are chasing aggressive climb in list prices (+13% YOY).



The U.S. budget deficit tripled to a record $3.1 trillion in FY20 (9/30) as the government battled the pandemic, which is 16.1% of GDP, largest since 1945. The federal debt exceeded the size of our economy, now 102% of GDP.
The government deficit as a % of GDP (16.1%) was only surpassed by the two world wars.

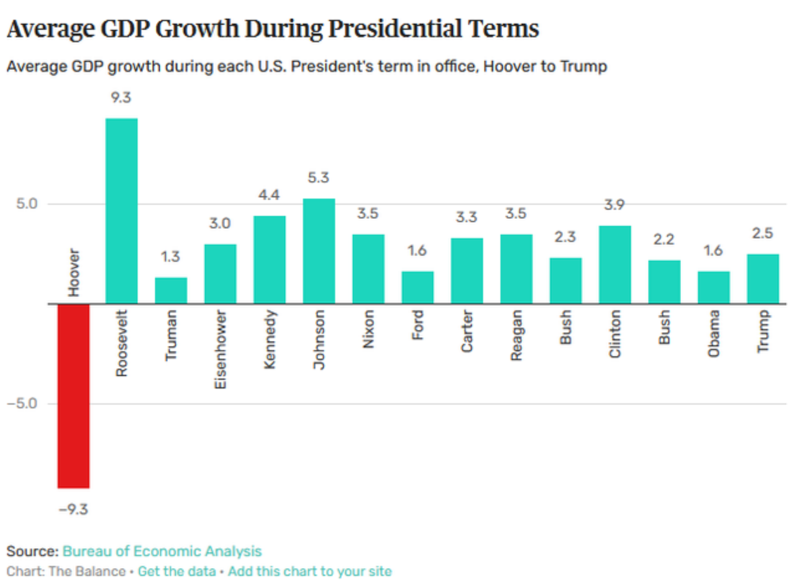


The bond market is worried about more fiscal stimulus and inflation. The 30-year Treasury yield is at 1.658%, its largest move above the 200 day since 2018. The 10-year Treasuries yield rose to 0.874%, much higher than the all-time low of 0.318% earlier this year.

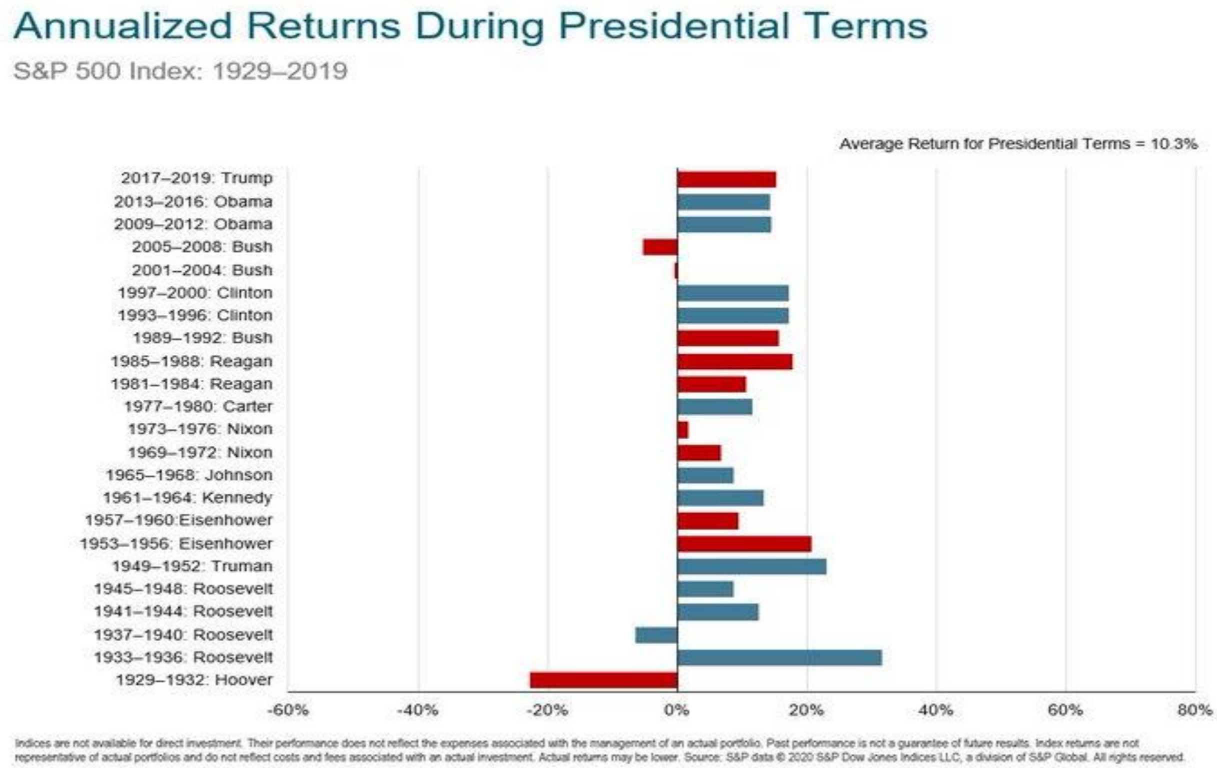
How to trade the election?

	Democratic Congress	Republican Congress
Trump wins Presidency	More Federal fiscal stimulus, monetized by the Fed and US banking system	More Federal fiscal stimulus, monetized by the Fed and US banking system
Biden wins Presidency	More Federal fiscal stimulus, monetized by the Fed and US banking system	More Federal fiscal stimulus, monetized by the Fed and US banking system

Average GDP growth during presidential terms is one of the most important indicators.
This is a 90-year chart from Hoover (1929) until Trump (2019). Note that the expected negative growth for this year is not included in this graph.



Stocks tend to climb regardless of who is in the White House. The average S&P 500 return for Presidential terms is 10.3%! Since 1929, the only times the U.S. stock market had negative returns were during Hoover, second term of FDR and both terms of George W.



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Thank you for your interest, Hans

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