



2020 A Year To Remember

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- Equities

2020 turned out to be a surprisingly good year for the U.S. stocks, after a screeching halt of the economy last spring. Sectors of the world economy rewired in unexpected ways and unanticipated opportunities arose ala Joseph Schumpeter – the definer of “creative destruction”. For the last year, more stocks gained at least 400% at their yearly peaks than in any year since 2002, led by Tesla with a 743% gain.[1] Stock analysts have described 2020 as a year where 10 years of innovation occurred in 10 months. The tech-heavy NASDAQ Composite logged its best year since 2009. Inside the Dow Jones Industrial Average, Apple Inc. was the best performer with an 80.8% return. This market recovery is considered the fastest on record. As Jim Paulsen of the Leuthold Group described it, the pandemic “put the U.S. economy and markets on the biggest bust-to-boom roller coaster we’ve ever seen – it caused people to dump far more when it was collapsing – and has caused them to chase assets on the way up.[2] Furthermore, 2020 followed a very strong 2019 as the table below shows:

| Index | 2019 % Return | 2020 % Return | 2020 % Gain from Year Low[3] |
|-----------------------|---------------|---------------|------------------------------|
| DJIA | 22.0 | 7.25 | 68 |
| DJ Transportation Avg | 18.5 | 14.7 | 92.9 |
| DJ Utility Market | 22.7 | -1.65 | 45.6 |
| DJ Total Market | 28.0 | 18.7 | 77.3 |
| S&P 500 | 28.5 | 16.2 | 71.4 |
| S&P MidCap 400 | 23.9 | 11.8 | 95.2 |
| NASDAQ Composite | 34.8 | 43.6 | 94.3 |
| Russell 1000 | 28.5 | 18.8 | 76.9 |
| Russell 2000 | 23.4 | 18.3 | 104.3 |
| Russell 3000 | 28.1 | 18.8 | 78.5 |

What's in this newsletter:

- 2020 STATS
- INTERNATIONAL MARKETS
- DOMESTIC MARKETS
- GOING FORWARD

[1] Wall Street Journal Lofty Year For Stocks Started as Nail-Biter p.A1 1/2/21

[2] www.wsj.com Stocks Surge in Crazy Year 1/1/21

[3] www.wsj.com U.S. America's Stock Indexes 12/30/19

“It’s pointless to set goals if you are not going to try to hit them.” – Don Connel

Among the international markets, most lagged domestic indices. Note the following selected best-to-worst:

| Index/Country | 2020 Return |
|-----------------------------|-------------|
| KOSPI S. Korea | 30.7 |
| BIST 100 Turkey | 29.6 |
| OMX Copenhagen | 29.0 |
| Merval Argentina | 22.9 |
| Weighted Index Taiwan. | 22.8 |
| Nikkei 225 Japan | 16.0 |
| S&P BSE Sensex India | 15.7 |
| S&P/N2X50 New Zealand | 28.5 |
| Shanghai Composite/China | 13.8 |
| OMX Stockholm 30 | 12.8 |
| DJ Global ex. U.S. Weighted | 9.2 |
| DAX Germany | 3.5 |
| Bovespa Brazil | 2.9 |
| S&P/TSX Composite Canada | 2.1 |
| Hang Seng Hong Kong | -3.4 |
| FTSE MIB Italy | -5.4 |
| CAC 40 France | -7.1 |
| RTS Index Russia | -10.4 |
| TA 35 Israel | -10.9 |
| Athex Composite Greece | -11.7 |
| FTSE 100 U.K. | -14.3 |
| Santiago/PSA Chile | -14.3 |
| IBEX 35 Spain | -15.4 |

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A major factor both domestic and in international market performance, if not the major factor, was the effect and economic damage caused by the pandemic. Regarding the United Kingdom, only until December 24 was a trade agreement reached with the European Union that finalized Britain’s exit from the E.U. The two sides will no longer face the prospect of tariffs or quotas on each other’s goods from January 1. But like all completed agreements, the “devil is in the details”, which have yet to be worked out. The whole Brexit process has now lasted 4 ½ years.

[1]Wall Street Journal Lofty Year For Stocks Started as Nail-Biter p.A1 1/2/21

[2] www.wsj.com Stocks Surge in Crazy Year 1/1/21

“You can’t solve a problem on the same level that it was created. You have to rise above it to the next level.”

– Albert Einstein

-Fixed Income

“Wall Street” is expecting a mild rise in interest rates, due to continued demand for U.S. debt. Globally, world debt holders are awash with roughly \$18 trillion of negative-yielding bonds.[1] For its part, the Federal Reserve is anticipated to purchase \$960 billion of U.S. Treasuries in 2021 or about \$80 billion per month.[2] The U.S. Treasury is skewing its issuance more toward longer maturities, taking advantage of historic low interest rates and easing back on U.S. T-bill sales to pay for pandemic relief. Here are where rates finished the 2020 year:

| U.S. Treasury | Current Yield % | Foreign Sovereign 10-Year Bonds | Current Yield % |
|---------------|-----------------|---------------------------------|-----------------|
| 30-Year Bond | 1.64 | China | 3.19 |
| 10-Year Note | 0.91 | France | -0.34 |
| 5-Year Note | 0.36 | Germany | -0.57 |
| 1-Year Bill | 0.11 | New Zealand | 0.99 |
| 3-Month Bill | 0.07 | Spain | 0.04 |
| | | U.K. | 0.20 |

After a turbulent year where the 10-Year Treasury hit all-time yield lows, most analysts we read anticipate a gradual rise in yields as the economy normalizes. The Federal Reserve’s policy to cap rate moves is likely to remain in force, according to Federal Reserve Chairman Powell.

-Commodities

Crude oil after suffering a hefty yearly fall, did realize some partial recovery by year-end. Crude oil finished 2019 at \$57.43 per barrel and closed out 2020 at \$48.52 per barrel – down 23.19%.[3] During the initial pandemic wave recall that oil futures contracts actually closed in negative territory for the first time ever in April. Demand will increase as the pandemic eases.

Gold remained strong with a 22.27%-year gain, but the “winner” was silver at \$26.41 per ounce, up 46.59% for 2020.[4]

[1] www.bloomberg.com A 1.8 Trillion Bond Glut Imperils Treasuries 7-Year Rally 12/23/20

[2] Ibid.

[3] www.marketwatch.com Crude Oil 12/31/20

[4] www.marketwatch.com Gold & Silver 12/31/20

“Without a saving faith in the future, no one would ever invest at all. To be an investor, you must be a believer in a better tomorrow.”
– Benjamin Graham

See the table below:

| Commodity | Year-to-Date Return % [1] |
|-------------|---------------------------|
| Silver | 47 |
| Soybeans | 39 |
| Copper | 26 |
| Gold | 23 |
| Natural Gas | 16 |
| Platinum | 10 |
| Gasoline | -17 |
| Crude Oil | -21 |
| Diesel | -27 |

The average return of “broad basket” commodity funds returned a -3.0% for 2020 while “precious metals” funds averaged 34.38%.[2] Gold and silver are seen as alternative investments as well as a hedge on inflation.

-Going Forward

The market had a most dramatic snap-back. The S&P 500 fell 33.9% during the pandemic.[3] This index witnessed 65 days of at least 1% + daily gains; 45 days of daily 1% + losses; and only 66 days in correction territory.[4] Not only did the markets jump back into positive territory, but so did Gross Domestic Product – up 33.4% annualized for the third quarter as well as a list of other macro-economic measurements of the economy.[5]

With equity markets reaching new highs at year end, valuations of the major indices neared their highs as well. Consider the following:

| Index | P/E Ratio 12/31/19 | P/E Ratio 2020 | Current Yield % [6] |
|------------|--------------------|----------------|---------------------|
| DJIA | 21.4 | 30.1 | 1.97 |
| NASDAQ 100 | 27.5 | 39.4 | 0.75 |
| S&P 500 | 25.5 | 40.4 | 1.60 |

The latest \$900 billion stimulus deal was passed by Congress December 20th and signed by President Trump December 24th. Federal aid relief through the third quarter totaled \$1.8 trillion.[7] As of December 31, U.S. debt looks like this[8]:

[1] www.wsj.com/Trick-the-Markets/12/31/20

[2] www.barrons.com/markets/benchmark-universe/12/31/20

[3] www.barrons.com/markets/s-p-500/12/31/20

[4] www.wsj.com/Trick-the-Markets/12/31/20

[5] www.barrons.com/markets/12/31/20

[6] www.barrons.com/markets/12/31/20

[7] www.wsj.com/12/31/20

[8] www.wsj.com/12/31/20

“If you want something new, you have to stop doing something old.” – Peter F. Drucker

As of December 31, U.S. debt looks like this[1]:

| | |
|--|------------------|
| U.S. National Debt | \$27.56 trillion |
| Net Interest on Debt | \$3.91 trillion |
| U.S. Total Debt w/Unfunded Liabilities | \$82.0 trillion |
| U.S. Federal Debt of GDP Ratio | 129.50% |
| Personal Debt per Citizen | \$62,580 |

During the latter part of 2020, nearly 500 companies went public, the most since 1999.[2] Quantum Scope gained 745% since going public; the electric car maker NIO jumped more than tenfold last year; Airbnb gained 116%; many others saw dramatic rises along with listed equities, especially those trading on NASDAQ.[3]

Theme-based ESG ETFs saw explosive growth during 2020. Asset growth doubled in the first three quarters of 2020 – to \$59 billion from \$28 billion.[4] Many, if not all, of the clean-energy ETFs soared with the election of president-elect Joe Biden. Many theme-based ETFs realized \$5.5 billion of inflows through November.[5] Are all of the companies within these popular theme-based ETFs making money, or will they?

The International Monetary Fund forecast for the global economy is a drop of 4.4% in 2020 bouncing back to 5.2% growth in 2021.[6] “Bullish” pundits here and abroad state the flood of money created by governments along with central banks continued quantitative easing policies will keep the equity markets positive.

Other analysts point to debt both here and abroad with interest on the debt that must be serviced. Margin debt by U.S. investors through November is up 9.53% month-over-month and is at a record high. [7] Investors are focused on the vaccines and expect S&P 500 corporate earnings to keep rebounding. We find that market strategists generally are optimistic going into a new year – whether or not it works out that way. On balance, a select panel of market analysts surveyed by Barron’s estimate GDP growth of 5% and S&P 500 stock index to appreciate about 9%.[8]

As we often state in previous letters, making stock market predictions can be and mostly are hazardous to one’s “health”. Buyers and sellers meet and determine a price. Investors bought Tesla after it rose 743% last year. Other investors bought Occidental Petroleum after it fell 58% in 2020. Which buyers made the most profitable decision going into 2021?

“The habit of saving is itself an education: it fosters every virtue; it teaches self-denial, cultivates the sense of order, trains to forethought, and so broadens the mind.” – T. Munger

A few key thoughts for the new year...

- Are you prepared for a market downturn?
- Do you have enough safe and “liquid” assets free from the vagaries of the market?
- Finally, do you have an investment plan or strategy in place based on your spending needs and objectives no matter whatever the markets do?

According to Clark Blackman, since 1871, market downturns have recovered as follows:

- 33% of market downturns recover within a month [1]
- 50% of market downturns recover within two months
- 80% of market downturns recover within one year
- 95% of the time those big “once in a lifetime drops” returns to even in three to four years
- Collectively, since 1871, the time it takes for the market to recover is a mere 7.9 months

We at Marathon are looking forward to working with you in 2021 and beyond. We are committed to always act in your best interest, to help you identify your financial objectives, and achieve them. The Team here wishes each of you and your families a healthy, happy, and successful 2021!

Postscript

For the last 20 years ending December 16th, the S&P 500 return was 178.08% or 5.247% per year with bear markets included. If dividends are reinvested, the total return rises to 306.84% and the rate of return jumps to 7.26% per year![2] What is your New Year's Resolution?

[1] www.advisorperspectives.com A Sample Year-End Letter 1/13/20

[2] www.dan.com The S&P 500 Return Calculator 1/2/21