

*Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.*

*Delta manages portfolios at TD Ameritrade and Schwab.*

*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

April 24, 2020

## **Groundhog Day**

COVID-19 has much of America caught in a loop when every day seems the same. Businesses are closed and we wait to see what happens next. Repeat.

The stock market, for the moment, has found a Groundhog Day equilibrium. With the S&P 500 at about 2,800 for the past week – down by about 600 points from the high and up by about 600 points from the low – there seems to be collective recognition that much of the service economy is at a standstill, the online-economy is fine and the future may change quickly.

As the dust settles on the first quarter, we are learning more about sources of selling pressure that caused a three-week, 35% decline in the S&P 500. Hedge fund capital fell by \$366 billion during the quarter and it is likely much of it was in March. Investor outflows were \$33 billion, the largest amount of outflow since 2009 and the 4<sup>th</sup> largest in industry history.

The oil futures market collapsed with the May delivery futures contract for West Texas Intermediate (WTI) trading intra-day at -\$40/barrel. Oil storage is near full and demand is depressed. Declining oil futures prices will do much to signal to producers to limit supply and eventually bring the market back into balance. The SPDR energy ETF (XLE) touched \$22.88 on March 18. From the low, XLE is up 54%. From the year-high, XLE is still down by about 50%. Energy has likely seen the low and has significant room to appreciate before returning to previous peak levels.

Earnings reporting season began on April 14. On April 13, the S&P 500 closed at 2,761.63. Contrary to many analyst predictions, earnings season has not been a disaster for the market.

The S&P 500 at 2,800 is expensive relative to historic price-to-earnings (P/E) averages based on current consensus earnings forecasts of \$120 in 2020 and \$150 in 2021. If

these earnings estimates are correct, the 2020 P/E of the S&P 500 is 23.3x and the 2021 P/E is 18.7x. The 25-year average P/E is roughly 16.5x.

In an investment environment with persistently high uncertainty (CBOE Volatility Index, VIX at or above 40 for the past seven weeks), it seems odd that the S&P 500 would temporarily stabilize at a historically high P/E multiple. Elevated uncertainty is normally associated with depressed valuations. The consensus expectation is it will take at least a year to create a vaccine and the economic re-opening process will be phased over a relatively long-time.

The S&P 500 at about 2,800 indicates 1) much of the market cap of the index is fundamentally performing well under current circumstances – e.g., AMZN, MSFT, GOOG, NFLX, etc., and 2) there is a material possibility that consensus expectations are too negative.

In any event, we should expect continued high volatility with the VIX at 40 and unpredictable news flow. Much of how an investor should establish their investment exposures today is based on their investment horizon. In the near-term, risk is elevated. Over time, the COVID-19 pandemic will pass.

### **Give Us a Call Today**

We have unique and sophisticated investment methods that seek to capture the stock market's gains while minimizing drawdowns in bear markets. If you would like to learn more about how we manage money, we invite you to give us a call at **(415) 249-6337**, visit [www.deltaim.com](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*"I thought I'd never laugh again.  
Then I saw your jacket."*

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

**16.2**

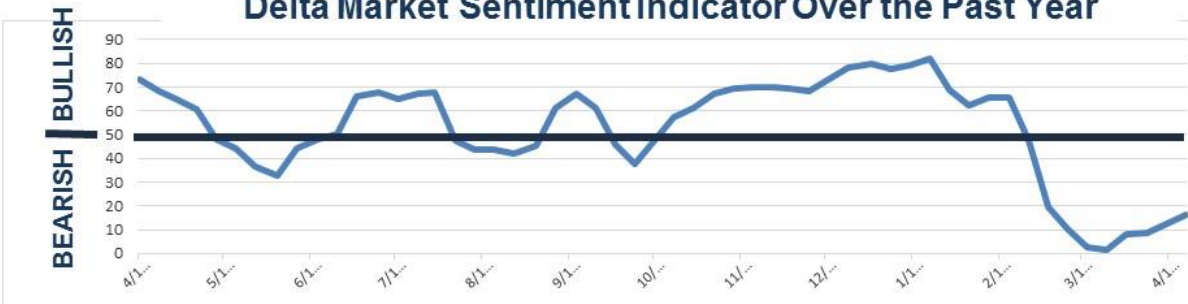
Our technical indicator increased  
from 12.3 to 16.2 this week

**INDICATOR STATISTICS**

Consecutive Bearish Weeks:	9
Cycle Inception Date:	2/27/2020
Range:	1.6 – 47.5
Mean:	14.1
Bullish Weeks YTD:	8
Bearish Weeks YTD:	9
*S&P 500	-5.7%
*DJIA	-8.5%
*NASDAQ	-0.5%

*\* Percentage change during current cycle*

**Delta Market Sentiment Indicator Over the Past Year**



(Delta MSI is published every week in *Barron's*)

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