

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 or 415-249-6337 to learn more.

May 1, 2020

Green Shoots in a Hot Market

Expansion, recession, collapse and recovery...all at once. In February, the first quarter GDP growth was expected to be about 3% (expansion). First quarter GDP (advance estimate) was reported this week at -4.8%. It is almost certain that 2Q GDP growth will be substantially more negative. Two sequential quarters of negative GDP growth is the definition of recession.

22% of the labor force is in the leisure, hospitality and transportation industries. Over the past six weeks, more than 30 million people lost their jobs. The Congressional Budget Office is projecting an average unemployment rate of 14% in the second quarter but this estimate seems light. In the Great Recession (2008-2009), it took two years for half this number of people to lose their jobs.

In 23 trading days, the S&P 500 was down 35% (collapse). A week before the stock market reached its low, the Federal Reserve set the Fed Funds rate at zero. From the end of February to a week ago, the Federal Reserve had increased its balance sheet by \$2.4 trillion (9 weeks). In the 2008 recession, it took the Federal Reserve almost five years (243 weeks) to put this much liquidity into the economy.

Federal Reserve Balance Sheet

2002 – 2020

Total Assets in Trillions of U.S. Dollars



Source: Federal Reserve Bank of St. Louis

The S&P 500 traded above 2,900 this week (on the Wednesday close up 34% from the low -- recovery). In the COVID-19 crisis, the VIX moved above 32 in February and back to 32 this week. A VIX at our below 32 is consistent with the market recovery. In the 2008-2009 Credit-Crisis recession, the VIX moved above 32 in September 2008 and did not fall back to this level until May 2009. The S&P 500 reached its low in March 2009.

Given the magnitude of the economic damage done and potential for the economy to remain partially closed for a substantial period of time, an investor might wonder why the stock market has recovered so sharply. Some of the reasons we have highlighted already include: a) much of the market cap of the major indexes are heavily weighted towards Internet based companies that have strong balance sheets and customer demand, b) government stimulus programs including Fed QE and c) a reversal in technical/forced selling to some amount of technical buying including performance chasing and short-covering.

High-frequency economic data are showing some improvement – green shoots:

- Steel production rose slightly
- Hotel occupancy and TSA checkpoint data appear to have bottomed
- Demand at gas stations was up 4.5% this past week
- Home and auto sales data are improving
- Facebook comment from earnings this week: **After the initial steep decrease in advertising revenue in March, we have seen signs of stability reflected in the first three weeks of April, where advertising revenue has been approximately flat compared to the same period a year ago.**
- Pfizer and a group in England are projecting having a vaccine ready by September

Two important differences between the COVID-19 crisis and the Credit Crisis (2008) are:

1. The capital markets are open today. Distressed companies have access to debt and equity capital. This may prevent many distressed companies (e.g., Boeing, cruise ship companies, major restaurant chains, airlines, etc.) from going bankrupt. Working capital illiquidity in the 2008 Credit Crisis was a primary driver of business failures.
2. The COVID-19 recession was caused by a forced shut-down of supply, not demand. When the economy reopens, presumably there will be demand.

The medical, economic and stock market situation is evolving rapidly. For those who missed the market bounce, we may see buying opportunities going forward as volatility remains elevated, earnings estimates are uncertain, fiscal stimulus will decelerate later this year and the economic shut-down may extend longer than expected.

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 or email us at info@deltaim.com.



“Heal!”

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

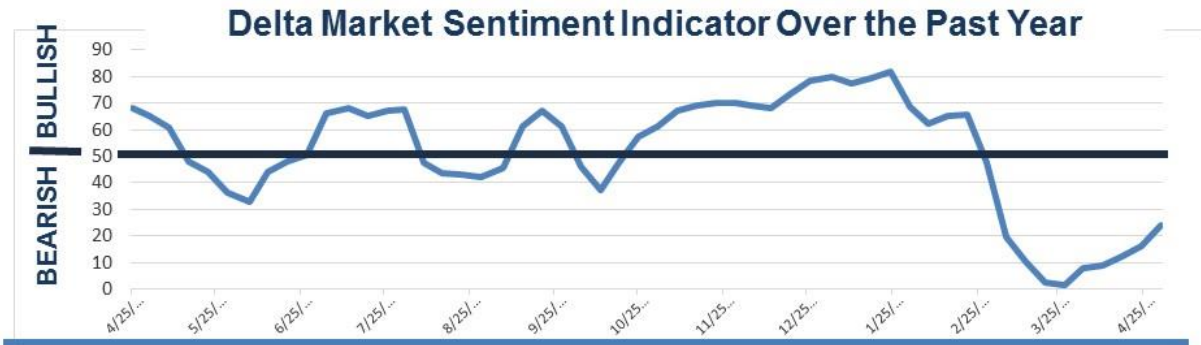
24.3

Our technical indicator increased
from 16.2 to 24.3 this week

INDICATOR STATISTICS

Consecutive Bearish Weeks:	10
Cycle Inception Date:	2/27/2020
Range:	1.6 – 47.5
Mean:	15.1
Bullish Weeks YTD:	8
Bearish Weeks YTD:	10
*S&P 500	-1.9%
*DJIA	-5.2%
*NASDAQ	4.1%

** Percentage change during current cycle*



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

Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.