

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.

October 23, 2020

Bank on It

The ping-pong like back-and-forth action of the bailout debate and the presidential election have narrowed the scope of headline news and captivated investor attention. Hey, we are in earnings season! The major banks reported last week and said important things that appear to have gone mostly unnoticed.

Banks lend and sometimes borrowers default. To manage this risk, banks reserve capital to buffer against defaults. As of last week, banks reported that they see no need to increase loan loss reserves for the third quarter. Consumer financial health, as far as the banks are concerned, appears relatively steady. Banks may be over-reserved in the event a stimulus bill passes near term and the COVID-19 threat subsides in the intermediate term. Reducing reserves is a boost to earnings.

What the banks said on their conference calls:

“Credit performance across almost all loan products was stronger than we would have anticipated a quarter ago.” – Wells Fargo (WFC) CEO Charlie Scharf

“What you’ve seen with us and also the other banks this morning, I mean, provisions are a bit lower than they had been the early part of the year...You’re right, our losses have been very low.” – First Republic Bank (FRC) CEO Jim Herbert

“Overall, the balance of nonperforming loans remains at a modest 48 basis points to loans.” – Bank of America (BAC) CEO Brian Moynihan

“Charge-offs across our portfolios remained relatively low and, in fact, we’re down slightly year on year and quarter on quarter.” “While we could see an uptick in charge-offs over the next few quarters, given payment relief and government stimulus already provided we don’t expect any meaningful increases in charge-offs until the second half of 2021.” – JPMorgan Chase (JPM) CFO Jennifer Piepszak

“Despite the somewhat lumpy increase in NPAs and charge-offs during the quarter, we’re seeing broad signs of progress in commercial credit quality as the economy recovers. We believe charge-offs should be stable in Q4 and barring a deterioration in economic outlook, we should start to see reserve releases beginning in the fourth quarter...I think we’re probably nearing the peak charge-offs, but they’ll stay elevated for a while before they move back down I think in the second half of the year.” – Citizens Financial Group (CFG) CFO John Woods

“...if you look at consumer as well, we’ve had really, really healthy trends even surprising to the point of being surprising but very solid in terms of delinquency.” – Citizens Financial Group (CFG) CEO Bruce Van Saun

Year-to-date, the banks are the second worst performing sector of the S&P 500. Earnings season gives us reason to believe they may see improvement in their relative performance over the next year. 2021 may be a year when following a “Dogs of the Dow” approach pays in both dividend returns and principal improvement.

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.



“What’s more important—that you don’t catch cold or that people don’t laugh at you?”

Delta Stock Market Dashboard

INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

63.5

Our technical indicator decreased
from 69.5 to 63.5 this week

Consecutive Bearish Weeks:	3
Cycle Inception Date:	10/8/2020
Range:	58.6 – 69.5
Mean:	63.9
Bullish Weeks YTD:	28
Bearish Weeks YTD:	15
*S&P 500	-0.4%
*DJIA	-0.8%
*NASDAQ	0.1%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



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