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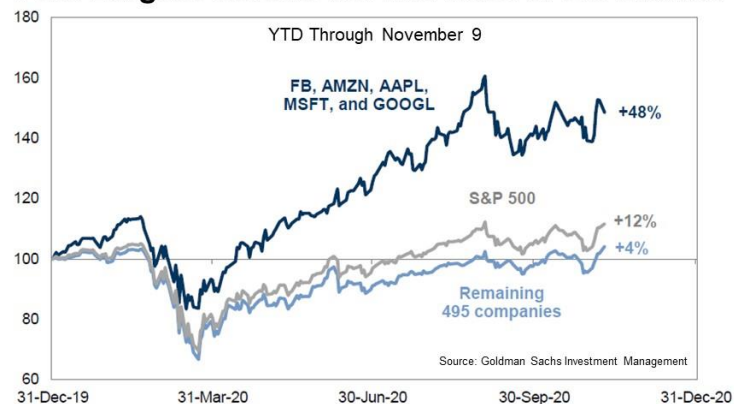
*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

November 13, 2020

## Crash Course: Interest Rates and Stock Values

Stocks are categorized by size (small vs. large) and type (growth vs. value). During 2020, large capitalization growth stocks significantly outperformed the rest of the stock market. Year-to-date through November 9, the five largest stocks (all growth stocks) of the S&P 500 are up collectively 48% versus the remaining 495 stocks which are up 4%.

### Five Largest Stocks vs. The Rest of the Market



This month, two major stock moving events took place. The first was the presidential election on November 3<sup>rd</sup> and the second was the announcement of a Covid-19 vaccine before market open on November 9<sup>th</sup>. The 10-year U.S. treasury rate reacted strongly to both events, but in opposite directions. 10-year treasury rates fell 15% in the wake of the election (Nov 3 – Nov 6) and then rocked up 28% on the vaccine news (Nov 6 – Nov 10).

## 10-Year US Treasury Rate



The dramatic fluctuations in interest rates during November created some of the strongest divergences in stock price performance we have ever seen and offer a crash course in how changes in interest rates impact different types of stocks differently. This condensed education on interest rates and stock values helps us consider how we might optimize our positioning for 2021.

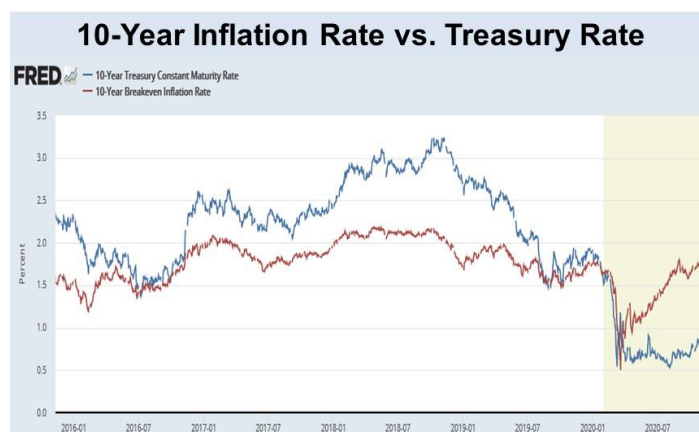
Below is a chart of growth versus value stock performance in the down-interest rate election reaction and the up-interest rate vaccine period.

		11/3 to 11/6	11/6 - 11/10
		Interest Rates	Interest Rates
		Down Post	Up Post
Type	Security	Election	Vaccine
Growth	NADAQ 100 (QQQ)	7.3%	-3.8%
Growth	Technology (XLK)	7.5%	-2.6%
Value	Dow Jones (DIA)	3.1%	4.0%
Value	Financials (XLF)	0.4%	8.8%
Value	Energy (XLE)	-2.0%	18.0%
	Outperformance		
	Underperformance		

High multiple growth stocks discount decades worth of future earnings. For example, Apple (AAPL) is trading at a current year P/E multiple of nearly 37x. If earnings remain flat, it would take an investor 37 years to recoup their investment. By contrast, Bank of America (BAC) is trading at a P/E of 13x. The longer the duration, the higher the interest rate sensitivity.

From the start of 2020 to the beginning of November, the 10-year treasury declined from 1.9% to 0.6%. Falling rates and an accelerated trend to on-line commerce generally drove large-cap growth stock outperformance. Going forward, rising rates and a full reopening of the economy may cause value stocks to outperform.

Inflation is currently running at about 1.6%. With the 10-year treasury yield at 0.9%, the real interest rate is negative 0.7%. Negative real interest rates have not persisted historically. We should expect the nominal 10-year treasury rate to eventually exceed the inflation rate. Over the next year or two and assuming inflation remains about where it is, the 10-year treasury rate could climb back into the range of 1.5-2%.



Companies with strong secular growth tailwinds and leading market positions should continue to do well. What also may do well, especially relative to year-to-date performance, are oversold value stocks that offer attractive yields and improving business metrics with a reopened economy.

### 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).



*“Ray Brown on bass, Elvin Jones on drums, and Alan Greenspan on interest rates.”*

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

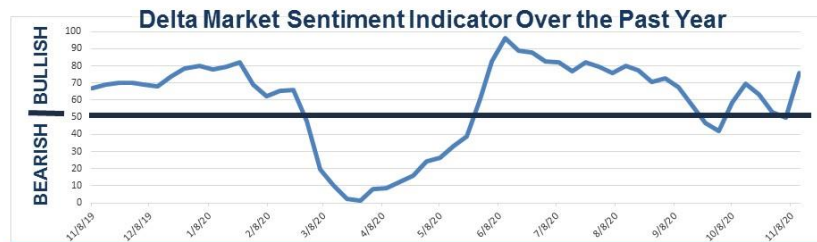
**75.6**

Our technical indicator increased from 50.0 to 75.6 this week

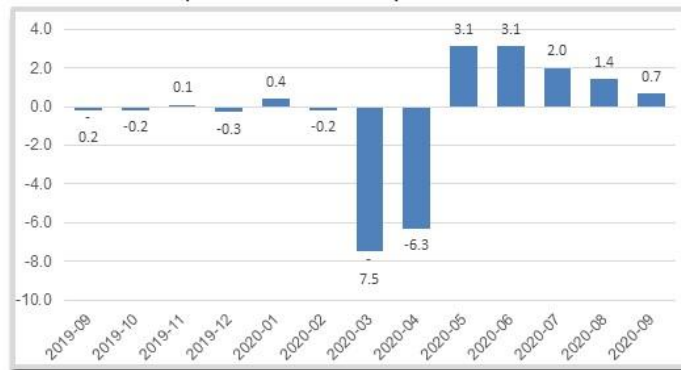
## INDICATOR STATISTICS

Consecutive Bullish Weeks:	6
Cycle Inception Date:	10/8/2020
Range:	50.0 – 75.6
Mean:	61.7
Bullish Weeks YTD:	31
Bearish Weeks YTD:	15
*S&P 500	3.2%
*DJIA	2.7%
*NASDAQ	3.4%

\* Percentage change during current cycle



## Leading Economic Index % Change Monthly September 2019 – September 2020



Source: The Conference Board, updated monthly – last update 10/22/2020

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