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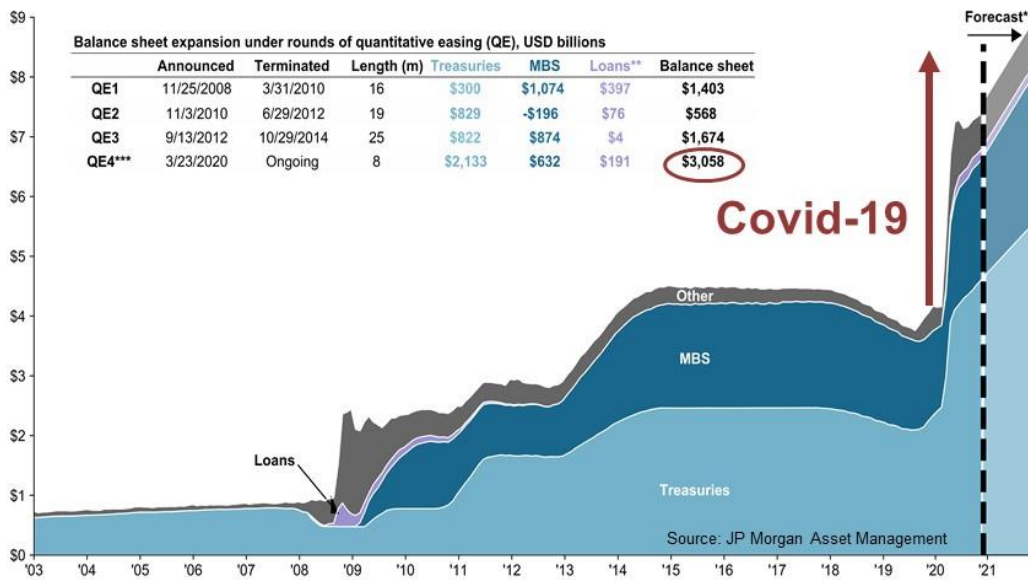
*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

December 18, 2020

**Lots and Lots of Money and Low, Low Rates**

Congress is about to pass another COVID relief bill which is expected to put an additional \$900 billion in to the U.S. economy. The Federal Reserve is buying \$80 billion worth of U.S. treasury securities every month and at least \$40 billion worth of mortgage-backed securities. Since March, the Fed has expanded its balance sheet by over \$3 trillion.

**Federal Reserve Balance Sheet**



The Federal Reserve’s buying of U.S. treasuries is helping keep the 10-year treasury rate below 1%. The Fed Funds rate (overnight borrowing rate to banks) is 0.0-0.25%. Low interest rates make stocks relatively more attractive with their capacity for appreciation and dividends. The forward 12-month earnings yield of the S&P 500 is 4.4%.

Lots and lots of money and low, low interest rates explain much of the reason stocks are near all-time highs. Another contributor is the choppy economic rebound underway and the prospect of a full economic reopening with the widespread distribution of the vaccine. Lots and lots of money and low, low interest rates support the current S&P 500 Price/Earnings (P/E) multiple of roughly 22x versus a 25-year average of 16.5x. Interest rates are so low (near all-time lows), a mathematician could argue the numbers suggest future P/E expansion.

If lots and lots of money and low, low rates explain much of the current bull market move, we should be on the lookout for a reduction of money supply and rising rates (trend reversals) in 2021 as a signal that these tailwinds are turning into valuation headwinds. During the press conference this week, Fed Chair Powell said he is not worried about inflation rising in the foreseeable future and plans to keep interest rates low for an extended time.

If you look at the Federal Reserve website, they show an average inflation expectation of 1.92% over the next ten years.



This suggests that real interest rates (nominal rate less inflation rate) are currently negative. For example, the 10-year U.S. treasury rate is 0.94%. The treasury rate minus the expected inflation rate is negative 0.98%. Negative interest rates historically have not persisted for very long. It is likely that as soon as the Fed reduces their treasury bond buying, interest rates are going to rise. Rising interest rates may compress stock P/E ratios.

Lots and lots of money and low, low rates are bullish drivers of stock market appreciation this year. These two factors should be kept on the radar as we advance into 2021. For now, we welcome the gift.

### **Let Us Help You Position for 2021 – Give Us a Call Today**

Give us a call or send an email if you would like to schedule an annual account review. If you do not currently have an investment account with Delta, we invite you to contact us to schedule your free portfolio review.

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).



*"Not on the list? I invented the list!"*

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

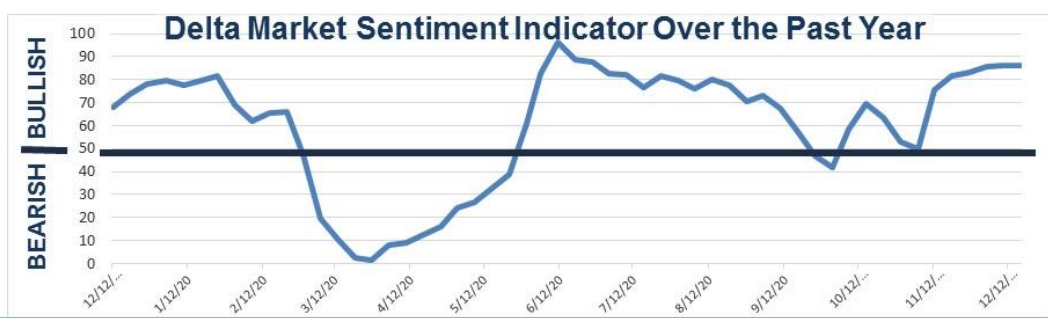
**86.3**

Our technical indicator increased from 86.2 to 86.3 this week

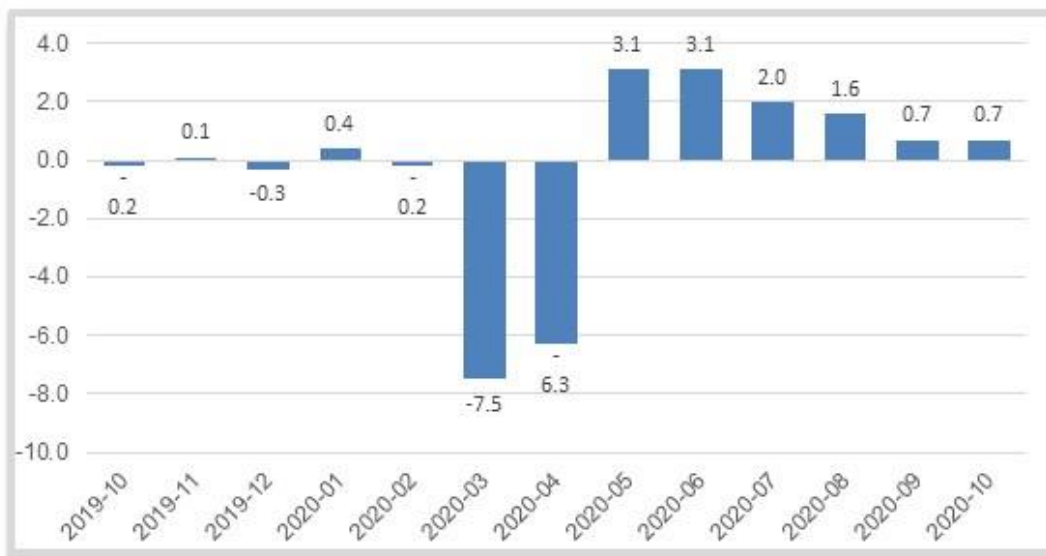
## INDICATOR STATISTICS

Consecutive Bullish Weeks:	11
Cycle Inception Date:	10/8/2020
Range:	58.6 – 86.3
Mean:	72.1
Bullish Weeks YTD:	35
Bearish Weeks YTD:	15
*S&P 500	7.8%
*DJIA	6.6%
*NASDAQ	11.4%

\* Percentage change during current cycle



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



Source: The Conference Board, updated monthly – last update 11/19/2020

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