

*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.  
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February 5, 2021

### Steady Hand of the Bond Market

The equity waters have been choppy the past couple of weeks. We have seen high stock volatility, particularly in heavily shorted stocks. The poster child of stock volatility lately is Gamestop (GME) which was roughly \$20 per share three weeks ago, reached a high of \$483 and is now roughly \$66. Even Apple (AAPL) traded from about \$127 last Monday to a high of \$145 and back down to \$130 earlier this week.

The Chicago Board of Exchange (CBOE) Volatility Index (VIX) reflects the recent stock volatility. In the past two weeks, it roundtripped from the low 20 range to a high of 37 (up 70%, down 40%).

### CBOE Volatility Index VIX

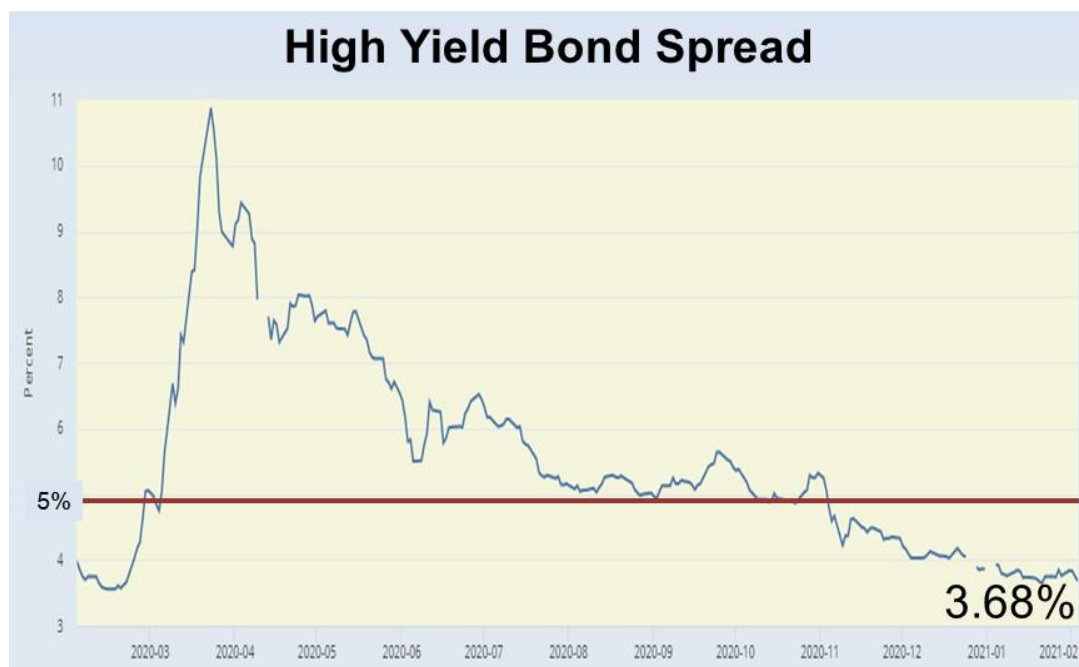


A volatility spike usually is associated with rising risk. In the 2008 financial crisis and the 2020 COVID-19 shock, the VIX had tremendous increases accurately indicating

significantly rising economic and earnings risk. In both cases, the volatility spike was associated with a recession and a major drawdown in the stock market.

In 2021, the volatility spike had more to do with technical aspects of how equity securities trade (short squeeze and margin calls) and nothing to do with underlying economic or earnings fundamentals. This thesis is confirmed by looking at how the bond market has viewed risk year-to-date.

Risk in the bond market is often measured with “spreads.” Spreads are the difference between one interest rate and another. One way to determine how much risk is priced into bonds is to look at the difference between risk-free bonds (U.S. Treasuries) and risky (rated below investment grade) corporate bonds. This week, that spread is down to 3.68%.



Unlike the VIX, the high yield bond spread shows no “risk” spike. The steady, collective hand of bond traders has gently guided risk expectations lower, especially since last November when the spread fell below 5% on a sustained basis.

As a point of reference, when the spread is below 5%, equity markets are usually bullish. When the spread is above 5% and rising, equity markets usually struggle.

Today, spreads are below 5% and trending lower. The Delta Market Sentiment Indicator (MSI) is 79.3% and Delta is bullish.

## Let Us Help You Position Your Portfolio – 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).



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

**79.3**

Our technical indicator decreased  
from 79.3 to 84.3 this week

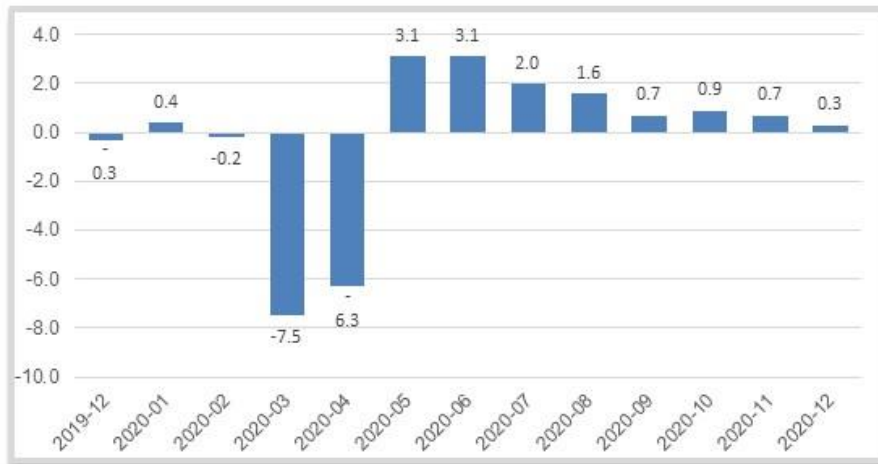
### INDICATOR STATISTICS

Consecutive Bullish Weeks:	22
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	77.6
Bullish Weeks YTD:	5
Bearish Weeks YTD:	0
*S&P 500	12.1%
*DJIA	9.1%
*NASDAQ	20.2%

\* Percentage change during current cycle



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



Source: The Conference Board, updated monthly – last update 01/28/2021

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