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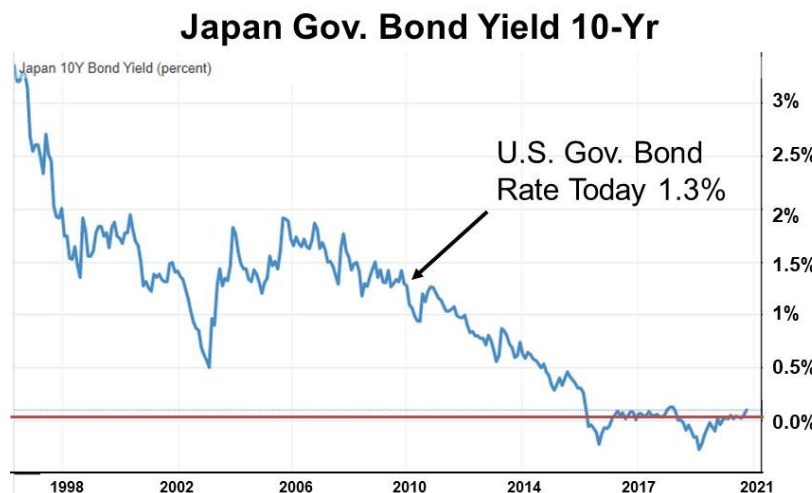
February 19, 2021

We Are Not Japan, Yet

In the 1970s and 1980s, Japan had a world leading economy. They were an export powerhouse with industry-leading manufacturing sophistication and quality. The Japan Nikkei 225 Stock Market Index reached an all-time high in late 1989.

Although Japan is the third largest economy in the world, thirty years have passed and the Nikkei has not returned to its old high. What happened? Mostly demographics and competition. Japan's population is shrinking and aging. Japan has one of the highest life expectancies in the world combined with falling birth rates and minimal immigration. Competitively, China, Korea and much of Southeast Asia have become large, less-expensive and capable manufacturers.

To stimulate growth and reduce the risk of deflation, the Japanese government lowers interest rates. For the past 25 years, Japan has experienced a falling 10-year government bond rate. Four years ago, their 10-year government bond nominal rate fell below zero and remains near zero today.

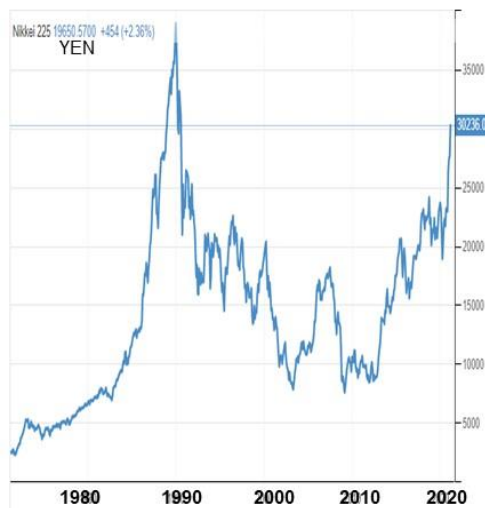


10-year bond rates are a measure of expected long-term economic growth. All else being equal, fast growing economies tend to have higher long-term interest rates than slow-growing economies.

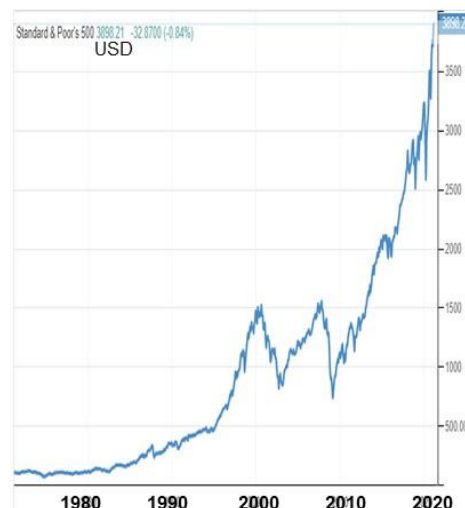
Like Japan, the U.S. has experienced a downward shift in its long-term economic growth rates and its 10-year U.S. treasury rate has been trending lower for decades. Unlike Japan, the nominal U.S. treasury rate never fell to or below zero. From a macro-economic growth standpoint, the 10-year U.S. treasury rate is currently signaling that growth prospects are picking up as it has risen from about 0.5% last August to roughly 1.3% this week. Higher interest rates place downward pressure on stock Price/Earnings (P/E) multiples. But in the big picture, growth with a little inflation is far better than economic stagnation and price deflation.

Another forward-looking indicator of growth is the stock market. The S&P 500 is near all-time highs this week. Below is a side-by-side comparison of the U.S. S&P 500 versus the Japan Nikkei 225.

50 Yrs. Nikkei



50 Yrs. S&P 500



Like Japan, the U.S. is facing aging demographics and increased global competition. But comparatively speaking, the U.S. has a more open economic system that allows for faster population growth and more innovation funded by dynamic capital markets and the inflow of many of the best and brightest from all over the world.

High P/E stocks may underperform low P/E, cyclical stocks in a higher interest rate environment, but higher rates are a broad, positive indicator as the expectations for growth are on the rise.

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 or email us at info@deltaim.com.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

84.2

Our technical indicator decreased from 86.1 to 84.2 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	20
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	78.3
Bullish Weeks YTD:	7
Bearish Weeks YTD:	0
*S&P 500	13.0%
*DJIA	10.3%
*NASDAQ	20.5%

* Percentage change during current cycle



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