DELTA
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Delta Insights
a weekly commentary on investing

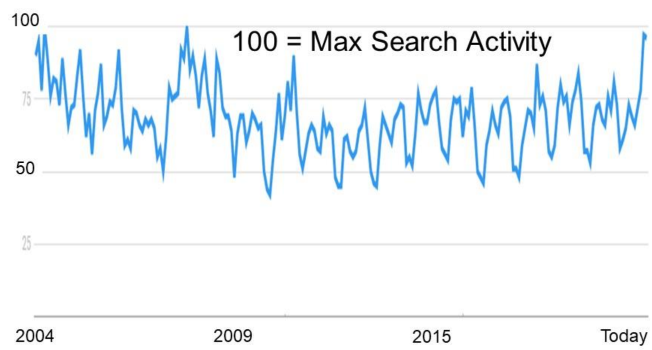
Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.
Delta manages portfolios at TD Ameritrade and Schwab.
Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

March 5, 2021

Inflation

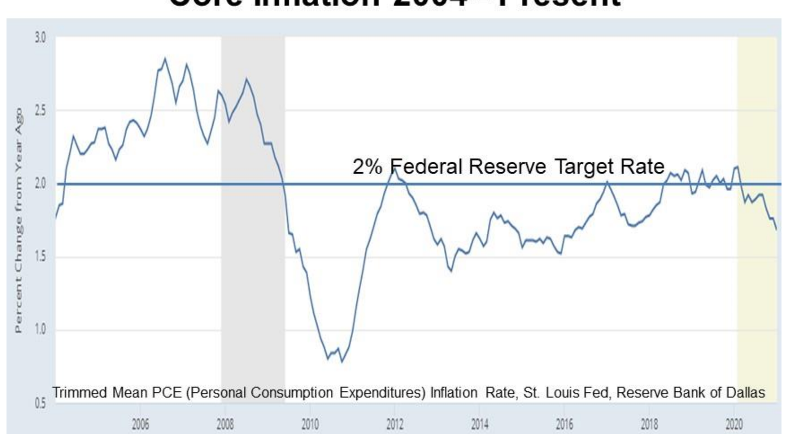
Interest in inflation is inflating. Google Trends shows “inflation” is at peak popularity, up 100% year-to-date. The last two times “inflation” searches on Google were this popular was 2004 and 2008.

“Inflation” Searches on Google 2004 - Present



Despite periodic periods of inflated interest in “inflation”, inflation has been trending sideways to lower since 2004 and is currently below the Fed’s target rate of 2%.

Core Inflation 2004 - Present



Trimmed Mean PCE (Personal Consumption Expenditures) Inflation Rate, St. Louis Fed, Reserve Bank of Dallas

The popular market commentary today follows the logic that trillions of dollars of government stimulus will cause the economy to overheat which will cause inflation to rise which will drive interest rates higher and cause stocks to depreciate from multiple contraction. Contraction will be particularly powerful in high-multiple growth stocks. Year-to-date, the S&P 500 value index is up 7% versus the S&P 500 growth index which is down 1%.

When a certain market outlook becomes very, very popular, you may want to consider "taking the other side." There are large, reputable bond trading firms that believe the recent run-up in the 10-year US treasury rate is closer to an end than the beginning and there is a possibility we will see new all-time low rates in 2022. If this contrarian perspective is correct, it is bullish for stocks in the intermediate term.

The argument for rates moving lower is as follows:

- Technically, the 10-year treasury rate has remained within a two standard deviation band since 1985. We have already moved one standard deviation and are approaching the high-end of the band.
- Interest rates have historically hit trough lows several quarters following recessions.
- The sharp increase in yields year-to-date is inconsistent with the Fed's dovish policy position and there is an expectation the Fed will push back against market repricing. Prospects are for asset purchases to extend into next year with short-term rates to remain pegged at zero until at least 2024.
- With a backdrop of benign inflation and easy money, investors will be tempted to reach for yield. There are few opportunities for fixed income investors to boost current cash flow. Investors are likely to take on duration risk to obtain higher yields. Increased buying interest in longer-dated bonds will help keep yields down.

If interest rates were to subside from current levels, it may be a two-edged sword. On the positive side in the intermediate term, stock P/E multiples should stabilize and potentially expand further. On the negative side, declining rates raises questions about economic growth and possible deflation which are fundamentally negative for growth (stock) assets. If all goes well, we may find a middle ground with more stable interest rates and appreciating stock values over time.

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.

"Before interest rates get any higher, maybe we should start thinking about investing in a second elephant."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

70.7

Our technical indicator decreased from 78.1 to 70.7 this week

INDICATOR STATISTICS

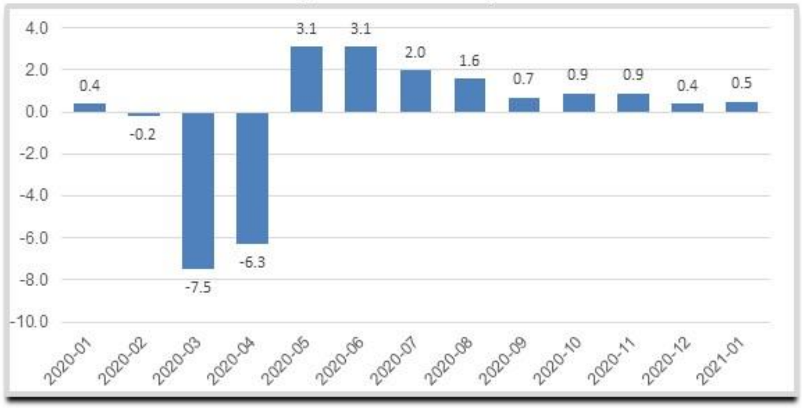
Consecutive Bullish Weeks:	22
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	78.0
Bullish Weeks YTD:	9
Bearish Weeks YTD:	0
*S&P 500	10.2%
*DJIA	9.7%
*NASDAQ	12.4%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year

Leading Economic Index % Change Monthly

January 2020 – January 2021



Source: The Conference Board, updated monthly – last update 02/22/2021
