

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 12, 2021

Are Interest Rates Going Up?

We don't know. What we mean when we say "we don't know" is that it is too early to know if the trend has changed. The downtrend in the 10-year US treasury rate remains in place currently. This will be the case until the rate breaks two standard deviations above the trend line on a sustained basis.

10-Year Treasury Rate, 1985 - Today



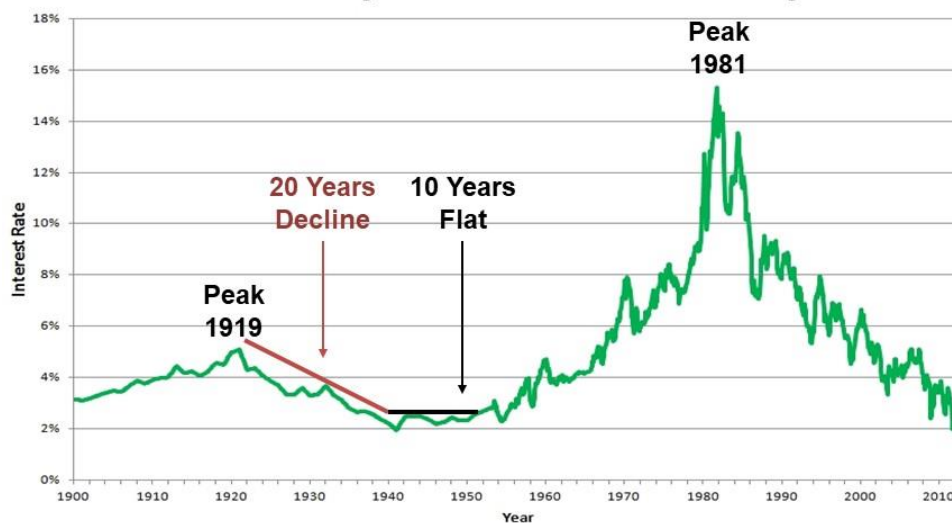
It is not necessarily true the downtrend will be broken with the onset of an uptrend. What may happen is the downtrend could be broken by a lengthy period of sideways movement. In other words, if the 10-year U.S. treasury rate remains at about its current level for a long enough period of time, the downtrend will be broken.

World War 2 caused unemployment to fall to about 1.2% from a peak unemployment rate of 24.9% in 1933. Government debt expanded from about 38% of GDP in 1941 to about 114% of GDP by the end of the war. Covid period unemployment and government spending look somewhat similar to what happened during World War 2.

Covid peak unemployment in April 2020 was 24.5%. It is projected to fall to about 4.1% by the end of this year and lower in 2022. Government debt as a percent of GDP is expected to rise above 100% this year for the first time since the end of World War 2.

An investor might assume that a tightening labor market and enormous government spending would cause inflation and interest rates to rise. History says not necessarily. The first interest peak of the 20th Century was 1919. Starting with the recession of 1920, interest rates trended lower for the next 20 years through the Depression to about the start of World War 2 in 1941.

120 Year History of 10-Yr US Treasury Rate



The downtrend was broken by a decade of flat rates. The rate uptrend did not begin until the early 1950s.

Last month, Treasury Secretary Janet Yellen said that although the unemployment rate was reported at 6.1%, the “real unemployment rate is 10%” as roughly 4 million people have become discouraged and have stopped looking for work. This implies there is idle capacity in the economy which could take years to work off. A tight labor market does not look like it will be a source of inflation anytime soon.

Commodity prices (e.g., lumber, metals, agricultural, oil, etc.) have risen sharply lately. This does create upward price pressures short-term, but commodities are “mean reverting.” Higher prices are rapidly met with higher supply which causes lower prices and lower supply. Generally, commodity prices (especially agricultural) have been declining for 150 years because of technology innovation.

If interest rates trend sideways for the next several years, stocks should track positive growth trends with one less source of multiple compression. A stable interest rate environment is constructive for stock valuations.

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.



“Am I Irish? Are you kidding? I was born green!”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

63.3

Our technical indicator decreased from 70.7 to 63.3 this week

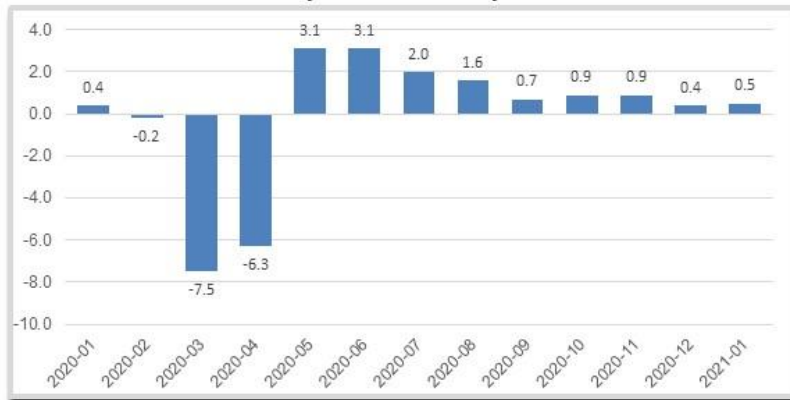
INDICATOR STATISTICS

Consecutive Bullish Weeks:	23
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	77.3
Bullish Weeks YTD:	10
Bearish Weeks YTD:	0
*S&P 500	14.4%
*DJIA	14.4%
*NASDAQ	17.3%

* Percentage change during current cycle



Leading Economic Index % Change Monthly January 2020 – January 2021



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

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