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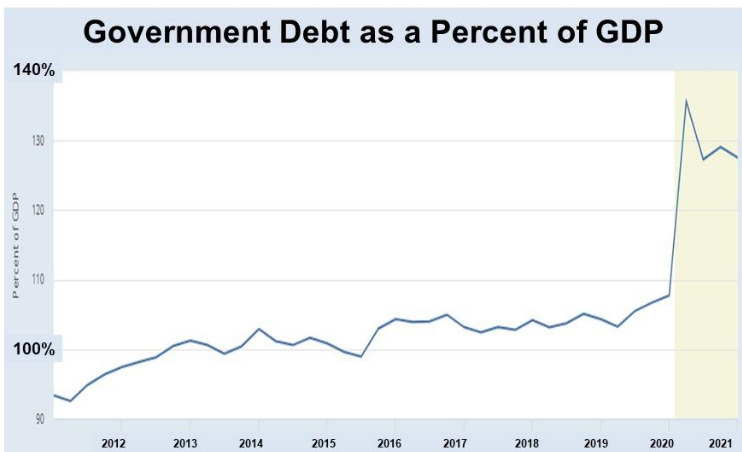
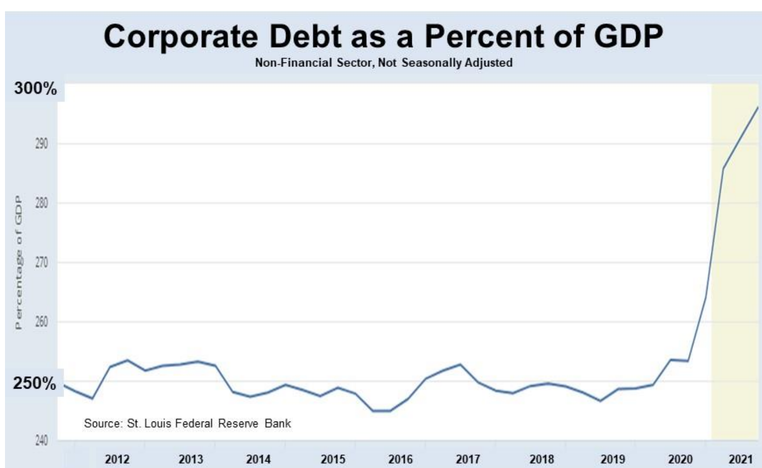
Delta Insights
a weekly commentary on investing

June 25, 2021

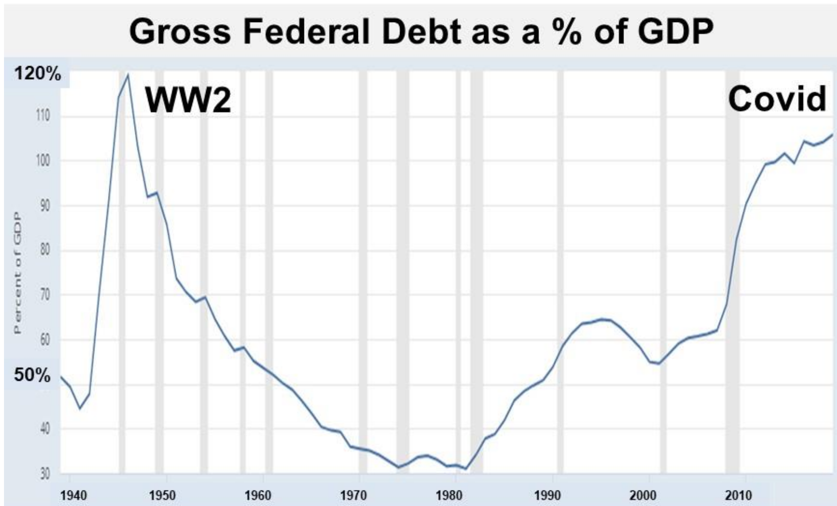
Big Debt, Low Rates

Corporate and government debt levels have risen dramatically during the Covid crisis. The two charts below show the dramatic rise in debt levels as a percent of GDP.





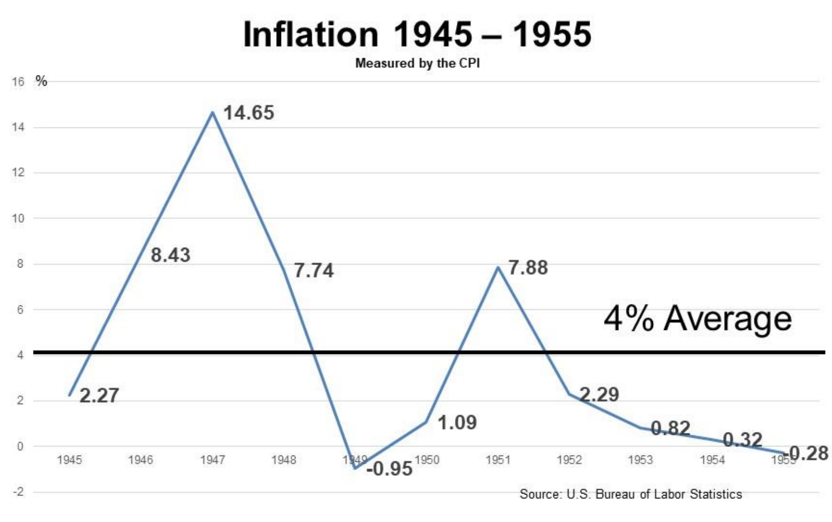
Some analysts believe the Covid experience from a financial perspective was more like a war than a recession. The shutting down and reopening of the economy and all of the government debt-financed support to make this happen seems more like a war effort than a market-driven recession. In fact, government debt levels as a percent of GDP have not been this high since the end of World War 2.



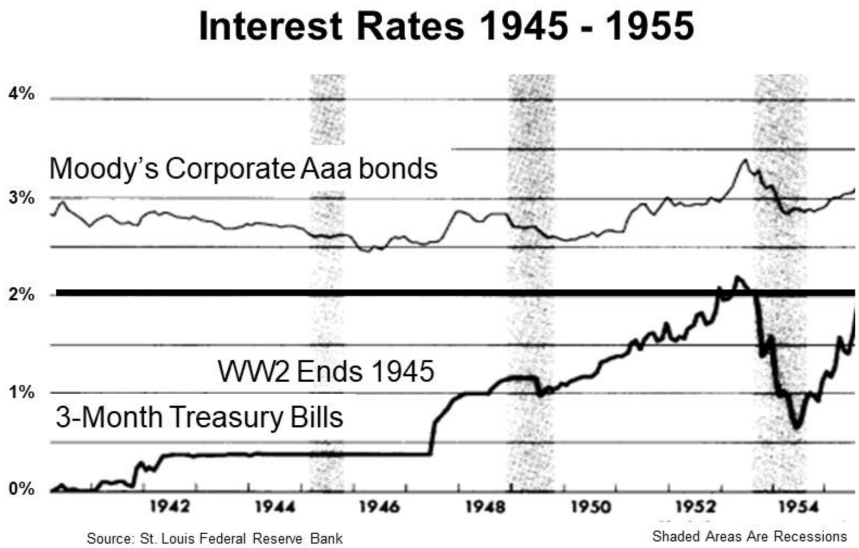
Today, many investors believe that too much stimulus will lead to inflation. High inflation will cause the Federal Reserve to raise interest rates which places downward pressure of stock valuations.

But this may not be what actually happens. In fact, there is so much corporate and government debt, the Federal Reserve may not be able to raise rates much without causing the economy to go into recession. Full employment and economic growth may take priority over inflation concerns for years to come.

For the decade after World War 2, inflation averaged 4% with occasional periods of very high inflation.



But, 3-month treasury bills stayed well below 2% for almost the entire decade.



Moody's Aaa corporate bonds had an average yield in the high 2% range from 1945 through 1955. Today, the Aaa corporate bond rate is 2.7%, right in-line with the post WW2 era.

Bond investment house, Guggenheim, believes the Federal Reserve will not be able to take the Fed Funds rate up past 1.7% without pushing the economy into recession. The linkage is if interest rates rise too much, many corporations will not be able to meet their debt service expenses. Government debt expense would have to be covered by greatly increases taxes which diminishes consumer spending, 70% of GDP. Extraordinarily high debt levels may place a cap on interest rates for the next several years.

Low rates for longer are a positive factor for stock valuations. From January 1, 1945 to December 31, 1955 the S&P 500 average annual rate of return was 18% including dividends. The S&P 500 was up 18.4% last year and is up roughly 13% so far in 2021. It would come as a significant surprise to many market participants if interest rates remained low for years. It is the surprise events rather than the known events that generally have the most market impact.

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Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

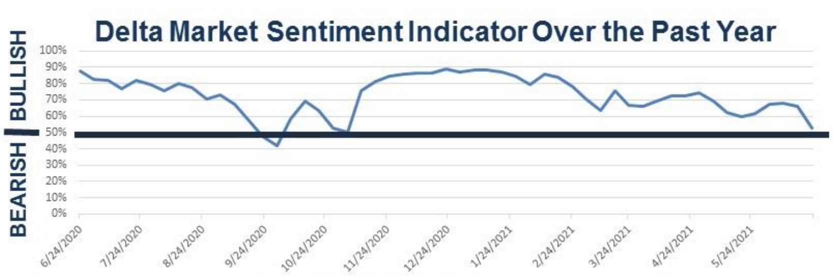
52.9

Our technical indicator decreased from 66.2 to 52.9 this week

INDICATOR STATISTICS

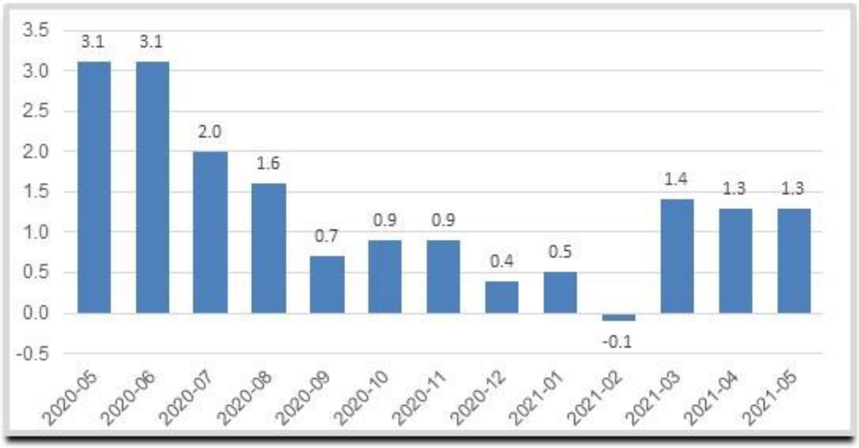
Consecutive Bullish Weeks:	38
Cycle Inception Date:	10/8/2020
Range:	52.9 – 88.6
Mean:	73.3
Bullish Weeks YTD:	25
Bearish Weeks YTD:	0
*S&P 500	23.6%
*DJIA	19.9%
*NASDAQ	26.1%

** Percentage change during current cycle*



Leading Economic Index % Change Monthly

May 2020 – May 2021



Source: The Conference Board – last update 06/17/2021

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