

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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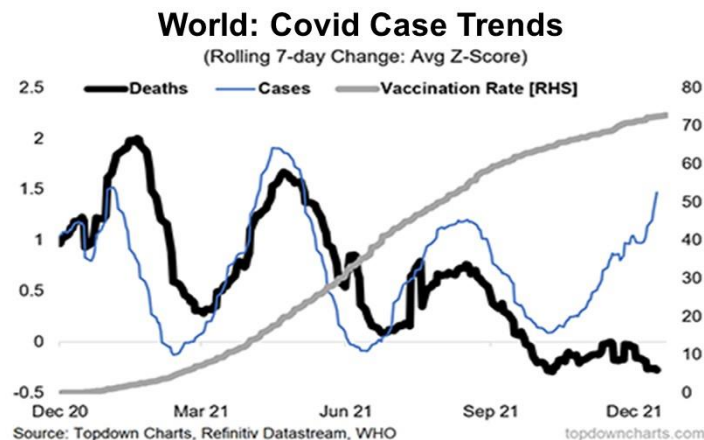
January 7, 2022

Coming Out of the Gate in 2022

The S&P 500 attained 70 closing highs during 2021 with the last one on December 29. On January 3, 2022, it reached a new closing high. Like a hurler in a track and field event, the market's sprint-pace record of attaining new market highs will be tested with the Omicron Covid surge, shifting Fed policy and upcoming earnings reports. Sell-offs on Covid and Fed news are likely buying opportunities. Strong earnings reports are an essential factor in potential further market gains and we will have to wait and see through the next several weeks if the market's anticipation of a positive earnings season comes to pass.

Covid daily cases have surpassed one million new infections in a day. Cases are expected to rise near-term. But, if we follow the path of Covid cases in South Africa, we should expect a steep Covid drop-off in the next couple of months. It appears that for 2022, the stock market may fully "look-through" the daily Covid news to an indeterminate point when Covid is not a significant economic factor.

The chart below shows why the market may be looking-through Covid. Vaccinations are up, cases are way up but deaths trend lower.

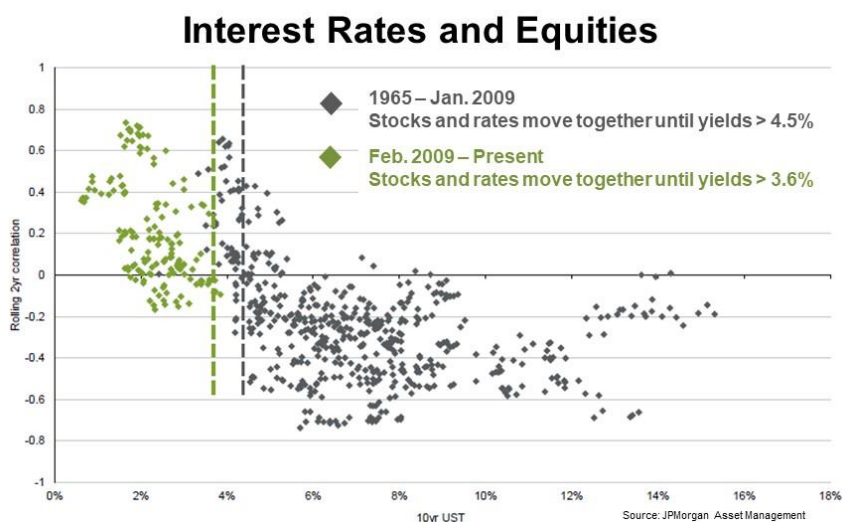


Investors interpreted the December Fed minutes release this week as increasingly hawkish. Because of strong GDP growth and a quickly improving labor market, the Fed may start raising the Fed Funds rate sooner than expected and accelerate the reduction of its balance sheet.

The Fed has been buying debt (quantitative easing) for years as a way to prop up debt markets and keep interest rates ultra-low. The Wednesday Fed minutes release suggest the Fed will begin selling some of the debt at a faster pace which normally causes interest rates to rise. This week through Thursday, the 10-year treasury rate climbed 15% from 1.51% to 1.73%.

Fed actions are a good news/bad news market input. The good news is the Fed is relaxing its “emergency” zero rates/quantitative easing because of strong economic growth and a recovering labor market. The bad news is interest rates are a part of how future corporate earnings are discounted back to present value. Higher rates tend to lower present values.

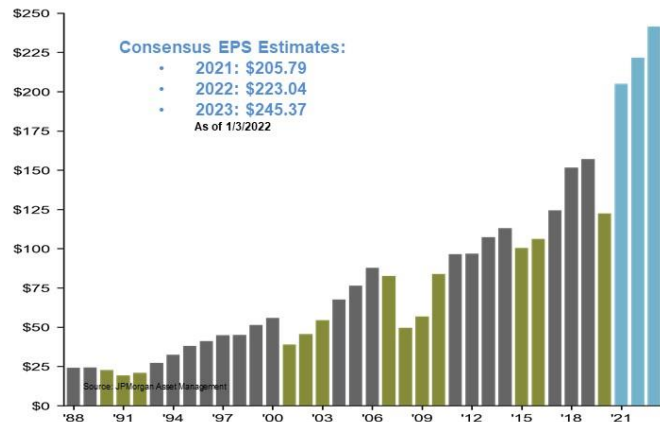
We are starting from zero/ultra-low rates. JPMorgan Asset Management believes the stock market will not be negatively impacted by rising interest rates until the 10-year treasury rate exceeds 3.6%. So far, this has proven to be true. In the past year, the S&P 500 and NASDAQ 100 are up 26% and 24%, respectively. The 10-year treasury rate is up 82% from 0.95% to 1.73%.



In 2021, 47% earnings growth helped lift the S&P 500 by 29% including dividends. The stock market actually became less expensive relative to earnings in 2021 as the P/E multiple contracted by about 7%. Earnings season begins on Monday, January 10.

Recent market strength suggests we should expect to see upside to current earnings expectations.

S&P 500 Earnings Per Share



We expect the stock market to clear the Covid and rate hurdles this year although we may see stumbles along the way. We also expect continued upward revisions to earnings estimates for the foreseeable future which will provide fundamental support for recent market gains.

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.



“What’s more important—that you don’t catch cold or that people don’t laugh at you?”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

74.2

Our technical indicator increased from 66.6 to 74.2 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	12
Cycle Inception Date:	10/21/2021
Range:	51.0 – 74.2
Mean:	62.7
Bullish Weeks YTD:	1
Bearish Weeks YTD:	0
*S&P 500	3.3%
*DJIA	2.0%
*NASDAQ	-1.0%

* Percentage change during current cycle



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