

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 28, 2022

2022 Rough Start

At the end of 2021, the market had attained the 70 new all-time highs, the second most on record. Coming into 2022, the market had strong bullish momentum.

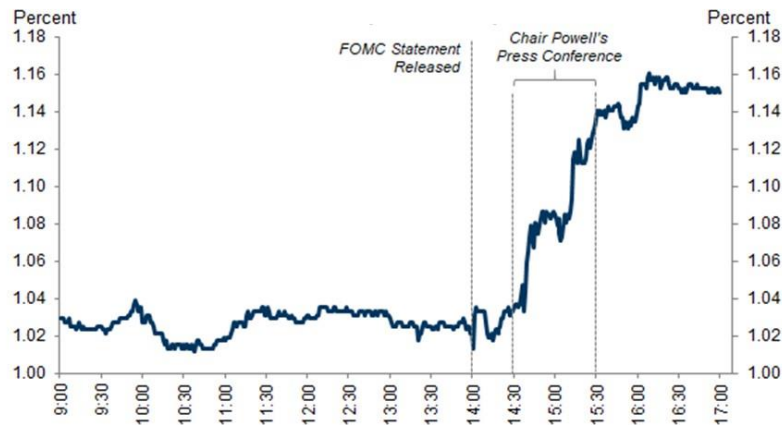
Although the number of new jobs created in the December labor report reported during the first week of January disappointed, the unemployment rate at 3.9% was a pleasant surprise. In our January 14, 2022 Delta Insights *Where Is Everyone Going*, we suggested the discrepancy between the two labor market readings is because people are starting new businesses. Subsequently, it has been reported that 5.4 million new business applications were filed in 2021, an all-time record (previous high was 4.4 million in 2020 – pre-Covid high was 2019 at 3.5 million). New business formation is bullish for GDP growth.

The top two concerns for many investors coming into 2022 were inflation and interest rates. Consensus opinion with regard to the Federal Reserve raising the Fed Funds rate in 2022 was for 2-3 raises. Since 2022 began, inflation has been running higher than expected and investor expectations for additional Fed rate hikes has risen. Both of these shifts have negatively impacted equity valuations.

Federal Reserve Chairman Powell acknowledged this week that the economy is showing strong growth (the Advance Q4 GDP report showed 6.9% growth versus expected 5.9%) but that inflation may be more persistent and higher than anticipated. The implication is the Fed may raise the Fed Funds rate at consecutive meetings this year and 4-5 rate hikes rather than 2-3 is the new consensus.

On Wednesday, January 26, when Powell spoke, the 2-year treasury rate jumped materially higher.

2-Yr. Treasury Yield, 1/26/2022



When interest rate expectations jump during the day, so do equity valuations. Stock valuations are discounted by interest rates with the relationship being inverse. At 14:00 ET on 1/26, the S&P 500 was trading at 4,446. It closed the day roughly 97 points (~2%) lower at 4,349.

Stock valuations are also discounted by the risk premium. The potential risks associated with Russia invading Ukraine increased in the past two weeks. This was a risk that did not rank high in investors' minds at the start of the year. On Monday when the U.S. ordered diplomat families out of Ukraine citing war risk, Ukraine became a top tier risk in investors' minds.

Generally, earnings reports have been positive with at least in-line forward guidance. One rising concern is that wage inflation pressures will be a drag on future corporate profitability. This concern impacts investors' view of the risk premium (higher) and future earnings estimates (lower).

In recognition of the above, the S&P 500 had depreciated by almost 10% year-to-date. It is interesting to note that the bond market, measured by High Yield Spreads (spread between non-investment grade bond yields and treasuries), is not showing rising concern. The spread remains near 3.25% which is well below the 5% level that Delta views as a threshold of concern.

From a technical standpoint, the market sell-off is sufficient to trigger intermediate-term price driven market signals (Delta Market Sentiment Indicator, MSI) to turn Bearish. For investors unwilling to ride through increased market volatility and potential further drawdowns, the MSI calls for a reduction in stock market exposure. For longer-term investors, the growing economy and stock market should regain positive traction during the remainder of the year.

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

BEARISH

THIS WEEK'S NUMBER IS

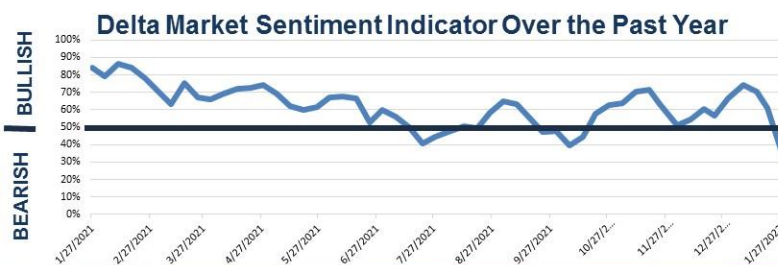
37.2

Our technical indicator decreased from 60.8 to 37.2 this week

INDICATOR STATISTICS

Consecutive Bearish Weeks:	1
Cycle Inception Date:	1/27/2022
Range:	37.2
Mean:	37.2
Bullish Weeks YTD:	3
Bearish Weeks YTD:	1
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

* Percentage change during current cycle



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