

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.

February 18, 2022

It's All About GDP Growth

Growing up, I had a brother who would point to the stars and yell, "Look, Kohoutek!" Kohoutek is a comet that passed by earth in 1973. Prior to 1973, Kohoutek had not been seen from earth for 150,000 years. The media played up Kohoutek as the "Comet of the Century." When I looked up to view Kohoutek in response to my brother's yell, he would take the opportunity to sucker punch me with some brotherly love.

The lesson learned is it is important to know what to focus on. I tried not to fall for the "Look, Kohoutek" trick too many times. I learned to focus on my brother's hands and not rare objects in space.

In the stock market this year, we have seen cases of "Look, Omicron!", "Look, Ukraine!", "Look, Inflation!" and "Look, Interest Rate Hikes!" Investors have been rattled and stocks have depreciated.

But Omicron, Ukraine, inflation and rate hikes are most likely not going to be the primary drivers of the market in 2022. What will drive the market is economic growth. If the economy is expanding, we should expect positive stock market performance. If the economy is contracting (recession), we should expect the stock market to depreciate.

The chart below shows the average S&P 500 returns since 1975. On the vertical axis is real Gross Domestic Product (GDP) growth. On the horizontal axis is the trend direction of the 10-year U.S. treasury rate.

Average 12-month S&P 500 Return from 1975

		Real 10-year Treasury yield			
		Falling	Stable	Rising	All
US real GDP growth	Accelerating	19 %	16 %	19 %	18 %
	Stable	14	15	12	13
	Decelerating but growing	13	9	8	11
	Decelerating & contracting	(3)	(20)	(19)	(11)
	All	12	11	11	11

Source: Goldman Sachs Asset Management

The only case when the average return of the S&P 500 is negative is when economic growth is both decelerating and contracting. A recession is technically defined as two sequential quarters of negative GDP growth.

For 2022, GDP growth is expected to decelerate from the rapid bounce it enjoyed after the Covid shutdowns. Most importantly, however, is GDP growth is expected to remain positive (no contraction). In a rising rate environment with decelerating but growing GDP, the average return of the S&P 500 for the year is 8%.

If the S&P 500 return in 2022 is average relative to the conditions in the chart, we should expect a year-end value of 5,148 or 8% higher than its closing value on December 31, 2021. If we do attain this average level, the S&P 500 advance from current levels would be about 16%.

As a historical follow-up on Comet Kohoutek, it fell well short of expectations. The comet was tied to a doomsday event expected in January 1974. Scientists expected the comet to have a spectacular display of outgassing. None of the above happened. The media proclaimed “Comet of the Century” became a relatively non-eventful, small footnote in astronomy text books.

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.



"All I'm saying is now is the time to develop the technology to deflect an asteroid."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

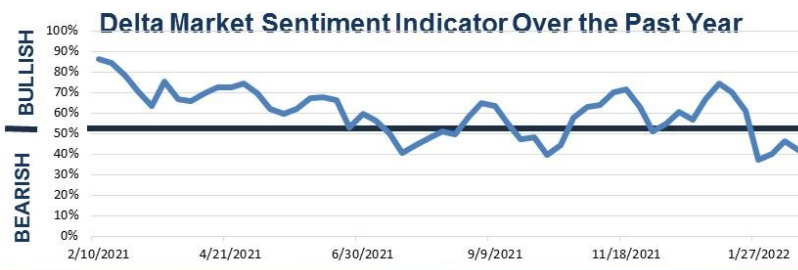
46.2

Our technical indicator decreased
from 46.2 to 42.0 this week

INDICATOR STATISTICS

Consecutive Bearish Weeks:	4
Cycle Inception Date:	1/27/2022
Range:	37.2 – 46.2
Mean:	41.4
Bullish Weeks YTD:	3
Bearish Weeks YTD:	4
*S&P 500	1.9%
*DJIA	0.9%
*NASDAQ	3.5%

* Percentage change during current cycle



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