

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 25, 2022

Thinking About the Unknown

Russia has invaded Ukraine. This creates uncertainty. Elevated uncertainty causes the equity risk premium to rise and stock valuations to decline. As stock investors, we need some basis for evaluating the current market decline.

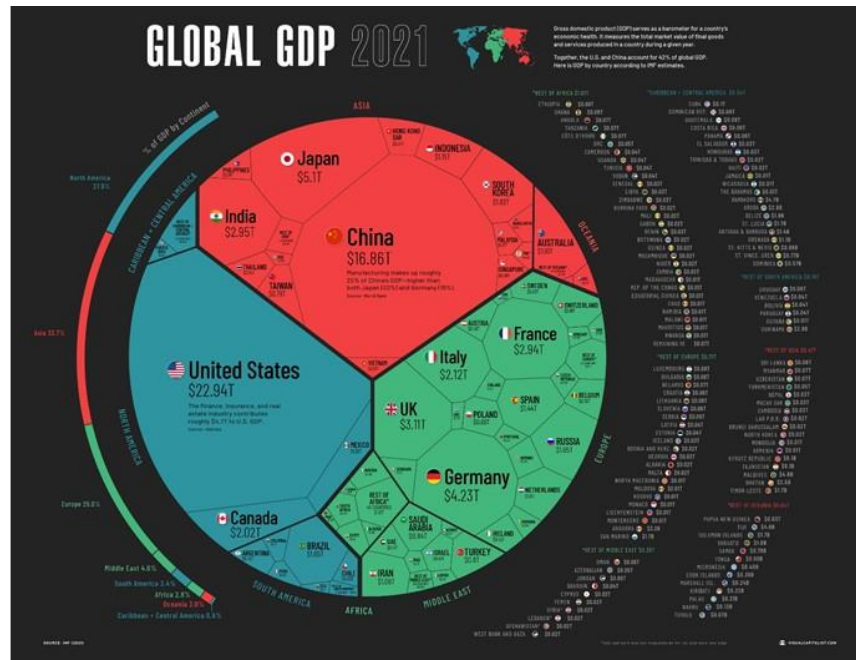
One way to structure our thoughts about the invasion of Ukraine is to look at what happened to stock valuations during prior similar events.

Prior events in history with some similarity:

- **Gulf War:** 8/1990 to 2/1991 – brief recession, 1990 oil price shock high interest rates, S&P 500 higher by March 1991.
- **Kosovo War:** 3/1998 to 6/1999, S&P 500 higher.
- **Iraq War:** 3/2003 to 12/2011, start of war marked S&P 500 low in 2003, significant market advance by end of war.
- **Arab Spring:** 12/2010 to 2015, bull market.
- **Annexation of Crimea:** 2/2014 to 3/2014, 2/2014 was 2014 market low, bull market.

From the Federal Reserve's perspective, they are aware that recessions in 1974, 1980, 1990 and 2008 were all preceded by high oil prices. From the 2020 Covid low, the price per barrel of oil (West Texas Intermediate, WTI) has risen from about \$20 to \$95. This is inflationary and is contributing reason for the Fed to raise rates. However it is also a drag on economic activity and productivity. This may cause the Fed to slow the pace of Fed Fund rate increases beginning in March.

The direct economic impact of a Russian invasion of Ukraine to the United States is small. The Russian economy represents about 1.7% of global GDP. Ukraine's economy represents well less than 0.03% for global GDP. Can you find Russia and/or Ukraine on the Global GDP 2021 chart below?



The Euro area exports about 1% of GDP to Russia and Ukraine. For Europe, the major impact will be inflationary with agricultural, oil/gas and other commodity prices rising.

The U.S. economy is entering 2022 with significant momentum. U.S. fourth quarter GDP growth was revised up to 7.0% from the advance estimate of 6.9%. Growth is slowing and it is likely that war in Ukraine will cause additional slowing. But it is unlikely the invasion will push the U.S. economy into a recession in the next couple of quarters.

The consensus 2023 S&P 500 earnings estimate is roughly \$250. At the low on Thursday, the S&P 500 P/E multiple on this earnings estimate was 16.5x. The 25-year average P/E of the S&P 500 on forward 12-month earnings is 16.8x. At this early point in 2022, using a 2023 earnings estimate is not the same as the forward 12-month estimate but it indicates valuations are in the ballpark of “historically normal.” At the end of 2021, the S&P 500 P/E on forward 12-months earnings was roughly 23x.

Russia invading Ukraine creates “unknowns” that are being discounted into stock prices. What creates investor fear is the potential extent of the repricing of stocks for the unknowns. Loss is painful and difficult to watch. Selling begets selling. The emotional and program trading response to the sell-off could exacerbate the sell-off further in the short-term

The market is “correcting.” History suggests investors are usually rewarded for staying invested during periods of correction and uncertainty, especially when the economy is growing.

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.



“Give in and buy a space heater.”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK’S NUMBER IS

36.7

Our technical indicator decreased from 42.0 to 36.7 this week

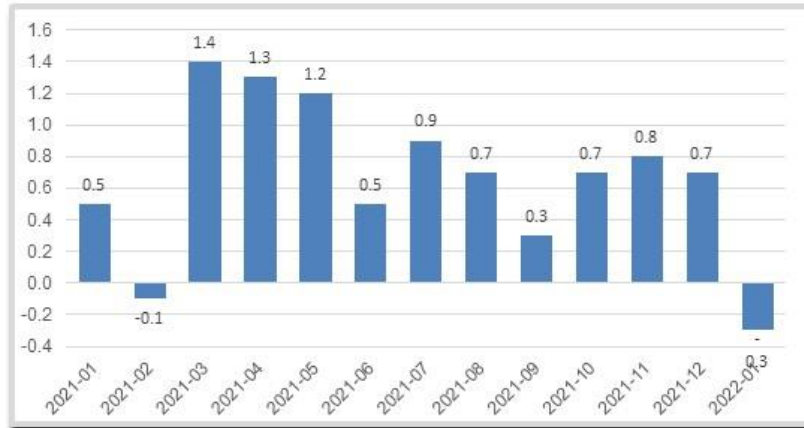
INDICATOR STATISTICS

Consecutive Bearish Weeks:	5
Cycle Inception Date:	1/27/2022
Range:	36.7 – 46.2
Mean:	41.4
Bullish Weeks YTD:	3
Bearish Weeks YTD:	5
*S&P 500	-0.9%
*DJIA	-2.9%
*NASDAQ	0.3%

* Percentage change during current cycle



Leading Economic Index % Change Monthly Jan. 2021 – Jan. 2022



Source: The Conference Board – last update 2/18/2022

Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.