

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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March 11, 2022

War Is Inflationary And Higher Interest Rates May Not Be the Answer

Last year, Russia was the second largest producer of oil behind the United States. One 42-gallon barrel of oil creates 19.4 gallons of gasoline. The rest (over half) is used to make things like: solvents, fertilizer, tires, deodorant, shoes, insecticides, CDs/DVDs, dashboards, all plastics including all plastic packaging, roofing, tennis rackets, skies, surf boards, toothpaste, clothes, refrigerators, detergents, aspirin, luggage, furniture, etc.

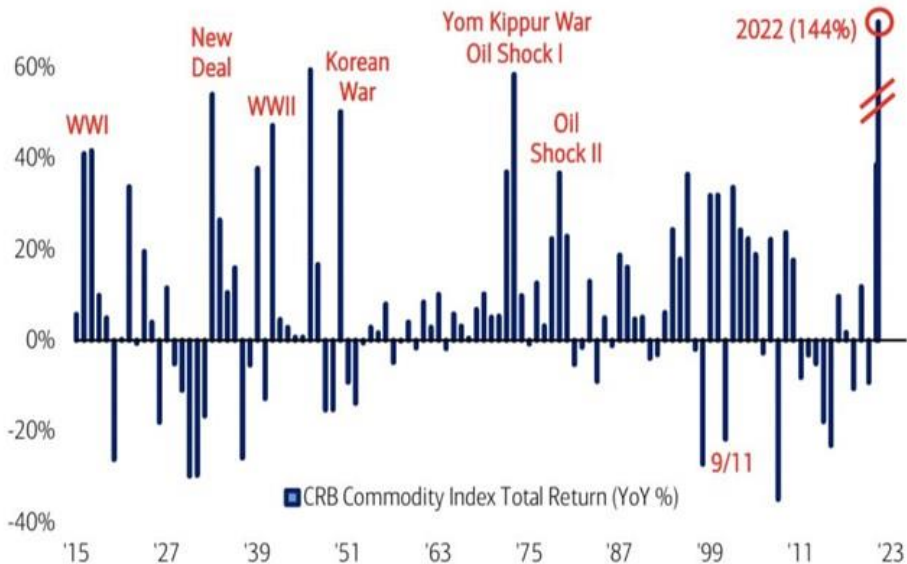
Since the Russian invasion of Ukraine on February 24, crude oil has appreciated by about 20%. Not only does this make gasoline more expensive, it is broadly inflationary. The cost of thousands of mainstream products and almost all product packaging and transportation rises. Inflation stemming from a supply shock from the second largest oil producing country in the world is unlikely to be corrected by the Fed raising rates.

Prior to the war in Ukraine, there were good reasons to think that currently high inflation would be transitory. With Russian and Ukraine coming off-line as major producers of oil, natural gas, wheat, and nickel (used to make lithium-ion batteries), there are good reasons to believe inflation will remain higher for longer.

Total CPI (Consumer Price Index – measure of inflation) increased by 7.9% in January. Core CPI (excludes food and energy) was up 6.4%. This was the consensus expectation – not a surprise to institutional investors. The Fed's target inflation rate is 2%.

In the January CPI report, the food index was up 7.9% year-over-year, the largest increase since July 1981. The gasoline index was up 38% year-over-year. Commodity prices have risen faster this year than any year since 1915. On a year-over-year basis, commodity prices are up 144%. The scale on the graph below stops out at 60%.

CRB Commodity Index Total Return



Source: BofA Global Investment Strategy, Bloomberg, Datastream
*2022 YTD annualized

The range of possible outcomes from the war in Ukraine is broad. One potential outcome is that high prices slow economic activity and eventually push the US economy into recession. For the moment, recession appears to be unlikely in 2022. However, the recession risk has to be watched carefully. For now, economic data is holding up well but many stock investors are on pause until the outlook becomes clearer.

On February 23, 2022, the S&P 500 index closing price was 4,225.50. Russia invaded Ukraine on February 24. Since the invasion, the stock market has been volatile with daily moves of 1-3+%. But even with the elevated volatility, the S&P 500 is roughly flat with where it was just prior to the invasion at the market close on February 23.

When the Russia/Ukraine crisis resolves, growth should eventually become the main driver of sentiment and positioning. If economic damage is contained and growth remains positive, we would expect the stock market to move higher as the bullish case to own this asset class in an inflationary environment remains strong.

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

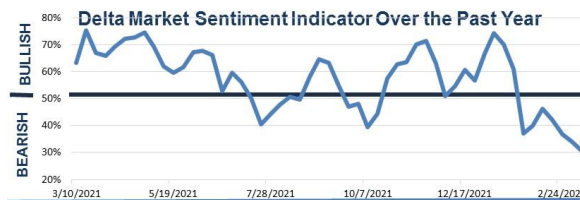
30.7

Our technical indicator decreased from 34.3 to 30.7 this week

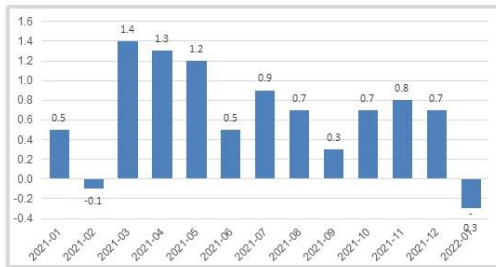
INDICATOR STATISTICS

Consecutive Bearish Weeks:	7
Cycle Inception Date:	1/27/2022
Range:	30.7 – 46.2
Mean:	38.2
Bullish Weeks YTD:	3
Bearish Weeks YTD:	7
*S&P 500	-1.9%
*DJIA	-3.2%
*NASDAQ	-2.5%

* Percentage change during current cycle



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



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

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