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*Delta manages portfolios at TD Ameritrade and Schwab.*

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March 18, 2022

## **Perestroika Reversed**

In the mid-1980s, Mikhail Gorbachev began speaking out against the Soviet Union's inefficient economic system. By 1988, Russia announced it would hold its first truly democratic elections since 1917. Perestroika is the Russian word for political reformation based on "openness." In 1990, Gorbachev became the first president of the Soviet Union. The Berlin Wall came down in 1989 and Russia was racing forward with capitalistic enterprise, much of it through joint-ventures with U.S. companies. [Note: author lived in Moscow in the late 1980s selling Russian petroleum refineries U.S. technology rail tank cars.]

## **Soviet, Finish, American Rail Tank Cars**

1989 SOVFINAMTRANS



Although the westernization of the Soviet economy has been a rocky and corrupt process, Russian living standards vastly improved over the past 30 years. Most Russians today enjoy first-world living standards, up from third-world standards during the Cold War.

China underwent a similar opening to the West in 1978 after the failed Cultural Revolution led by Mao Zedong left China a very underdeveloped, third-world nation. In 1978, the per capital GDP of China was \$155 versus \$10,588 in the U.S. at that time. As a result of opening up, China rose to be a superpower with the second largest economy in the world.

WW2 arose during a time of global economic depression. Russia's invasion of Ukraine comes after decades of global prosperity, especially in Russia and China. This difference alone will cause Russia to fail over time.

Russia's invasion of Ukraine has been a stomp on the de-globalization gas pedal that began with Trump-led tighter tariff and trade deals and Covid supply chain problems. With the invasion of Ukraine, the world solidified into West versus East almost overnight. More specifically, it is now Western Europe/U.S. versus Russia and maybe even China. Russian currency, equities and bond values are being crushed. China's economic wellbeing is declining through its association with Russia. The decades of benefits from "openness" are being given back in weeks.

China government bonds had \$10.2 billion foreign outflows in February. The risk of forced de-listing of Chinese ADRs from US stock exchanges because of a failure of Chinese companies to meet U.S. accounting standards is imminent. Goldman Sachs estimates that foreign investors have an aggregate exposure of \$2.4 trillion in Chinese equities with US investors accounting for 31% of these holdings. If U.S. investors were to liquidate their Chinese ADR holdings, it would equate to 61 days of selling assuming the selling was equal to 1/3 of average daily trading. This would create significant downward pressure on Chinese equity values.

The iShares China ETF (MCHI) lost roughly half of its value in the past year. Since the Russian invasion of Ukraine on February 24 to the low this week, the MCHI was down by over 25%. On Wednesday of this week, the Chinese government announced measures to stabilize their stock market causing the MCHI to rebound somewhat.

Pulling people (Russians, Ukrainians and possibly Chinese) back from their modern lives into poverty is not likely to have lasting popularity. As Abraham Lincoln once said, "War at the best, is terrible." For Putin, it may mark the beginning of the end. For Russians, Ukrainians and Chinese, it may eventually create a stronger will for freedom and openness.

Bank of America Securities looked at year-end stock market results during years when the S&P 500 lost 8% or more of its value in the first 48 trading days of the year. As long

as the economy did not slip into recession, the final 204 trading days of the year were prosperous.

### S&P 500 Down 8% In First 48 Trading Days Performance to Year End

Year	48 Days In	Final 204 Days	
2022	-12%		
2020	-15%	37%	
2009	-17%	49%	
2008	-10%	-32%	Recession
2003	-9%	38%	
2001	-11%	-3%	Recession
1982	-11%	29%	
1960	-10%	8%	
Avg	-12%	18%	
Median	-11%	29%	

Source: BofA Securities

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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](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*"Great God Almighty! Somebody please wake me up and tell me I'm only dreaming that the chicken marsala costs a whopping twenty-eight ninety-five!"*

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

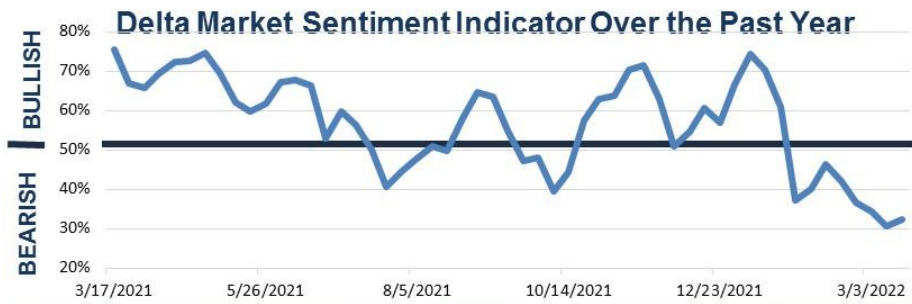
**32.3**

Our technical indicator increased from 30.7 to 32.3 this week

### INDICATOR STATISTICS

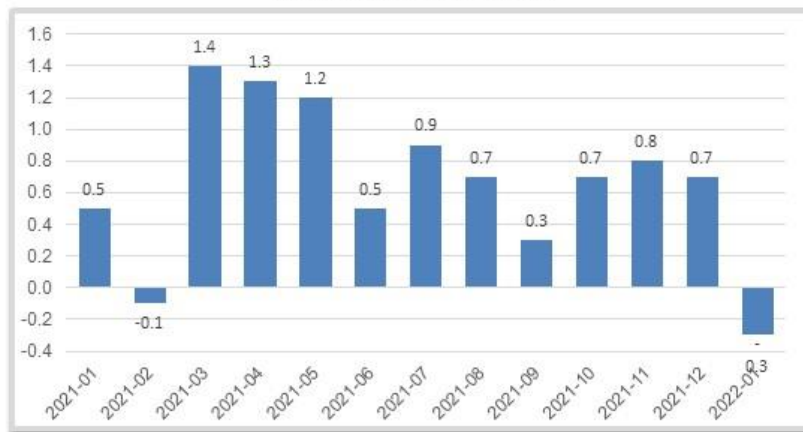
Consecutive Bearish Weeks:	8
Cycle Inception Date:	1/27/2022
Range:	30.7 – 46.2
Mean:	37.4
Bullish Weeks YTD:	3
Bearish Weeks YTD:	8
*S&P 500	0.0%
*DJIA	-0.6%
*NASDAQ	-1.0%

\* 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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