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Delta Insights
a weekly commentary on investing

April 8, 2022

Worst Year Ever for Bonds

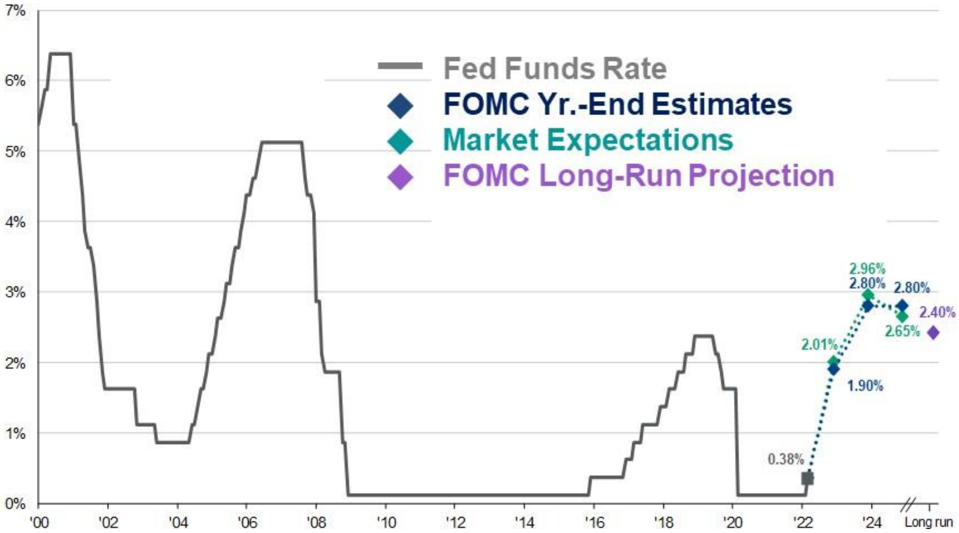
If you thought investing in stocks during this turbulent time was difficult, try bonds. Making money in bond portfolios during a period of rising interest rates is a significant investment challenge.

Generally, bond values depreciate when interest rates rise (rate risk) and when defaults increase (credit risk). Both interest rates and defaults are increasing off of all-time low levels. The current threat is predominately rising rates rather than deteriorating credit quality.

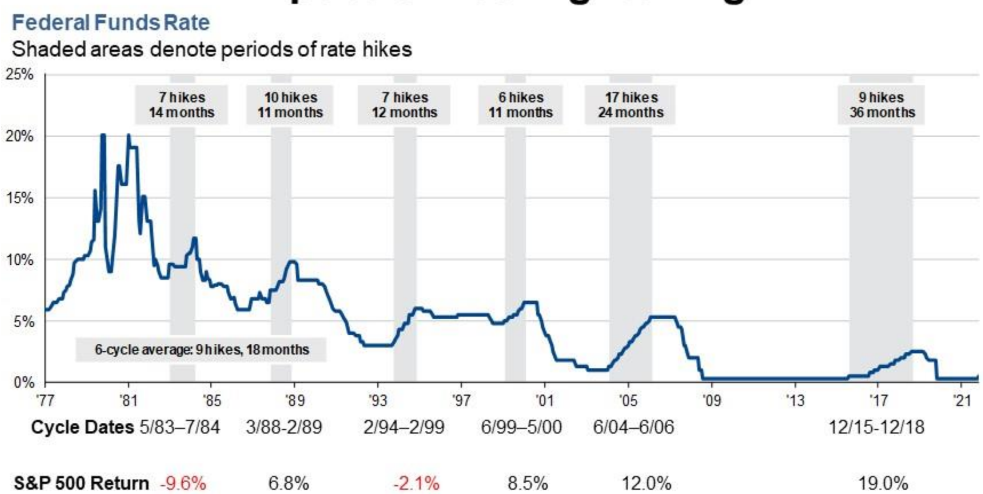
Year-to-date, the Barclays Aggregate Bond Index as measured by the ETF (AGG) is down by 7.5%. The AGG represents investment grade (very good credit quality) corporate debt. The worst calendar year for the AGG was 1994 when it lost 3%. In 2021, the AGG was down 1.77%. It has never had two consecutive down years in its entire history. It looks like 2022 will be a record-breaking year. By comparison, the S&P 500 is down by about 6% year-to-date.

The Federal Reserve expects to raise the Fed Funds rate from its current 0.38% to 2.8% by the end of the cycle. For traditional corporate and government bonds, it is likely there is more downside to come as the rate hike cycle just began last month and is expected to continue well into 2023. The bond market is anticipating the fastest annual pace of rate hikes since 1994. Over the past forty years, the average rate hike cycle has included 9 hikes and lasted 18 months. The fewest number of rate hikes has been 6 and the most is 17.

Federal Funds Rate Expectations



Impact of Fed Tightening



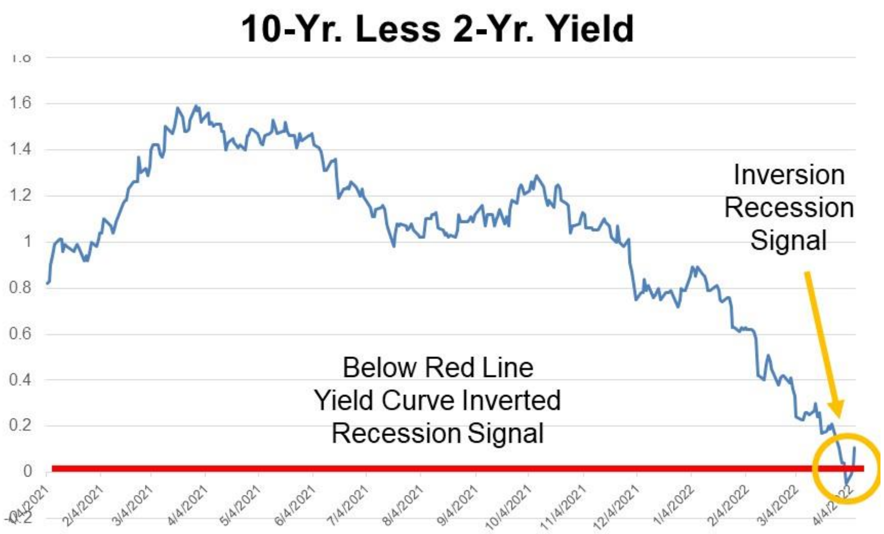
Source: JPMorgan Asset Management

Not all fixed income reacts the same way when interest rates rise. There are ways to protect yourself and profit in a rising rate environment. For example, the sensitivity of the bond price to changes in interest rates is directly tied to the duration of the bond. As bond duration extends, rate sensitivity increases. One simple way to avoid significant loss in fixed income during a rising rate environment is invest in ultra-short duration bonds. The challenge with ultra-short duration bonds is their yields are currently below inflation rates and as a result, the value of the investment erodes over time.

Some bonds have floating rates that may move up or down based on certain rate indexes. Bonds that adjust their rates higher when interest rates rise often are attractive in a rising rate environment.

Emerging market debt, real-estate funds, master limited partnerships and high dividend paying stocks are examples of investments that offer yield and the potential for appreciation in rising rate environments. Please give us a call or email if you would like to explore how we can help you manage your fixed income investment approach during a time of rising rates.

As a follow-up to last week's *Delta Insights* that talked about the inversion of the treasury yield curve as a recession signal, the yield curve inverted for two days at the start of April.



If historical relationships remain roughly constant, we should expect to see a recession in the US sometime in the next 15 to 20 months. Deutsche Bank is calling for a recession by the summer of 2023. They are the first investment bank to formally make a recession call.

Delta's view is it is too early to call. We require both the yield curve to invert and for the six-month moving average of the Leading Economic Index (LEI) to turn negative.   The LEI remains positive.

The war in Ukraine is a wild card. This week, Treasury Secretary, Janet Yellen, warned congress of the potential "enormous" economic repercussions from the war. A long war (years) in Ukraine may be a significant catalyst to global recession. A termination of the conflict in the near term would provide economies and equity markets a significant boost. For now, the US economy is expanding. The ISM Services Index report this week was above expectations and showed strength in new orders, production and employment.

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.

"Are you kidding me? I'm not watching golf. I'm watching Tiger."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

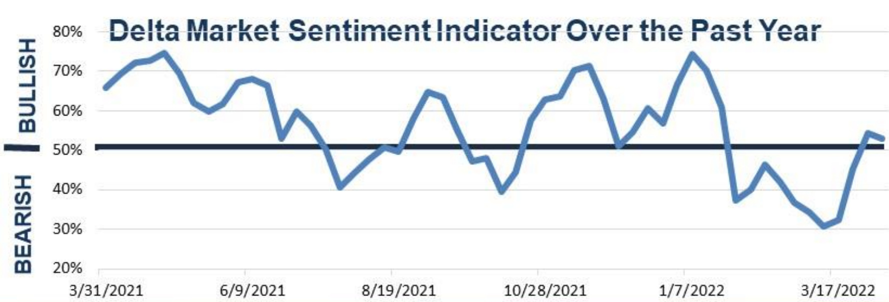
53.0

Our technical indicator decreased from 54.3 to 53.0 this week

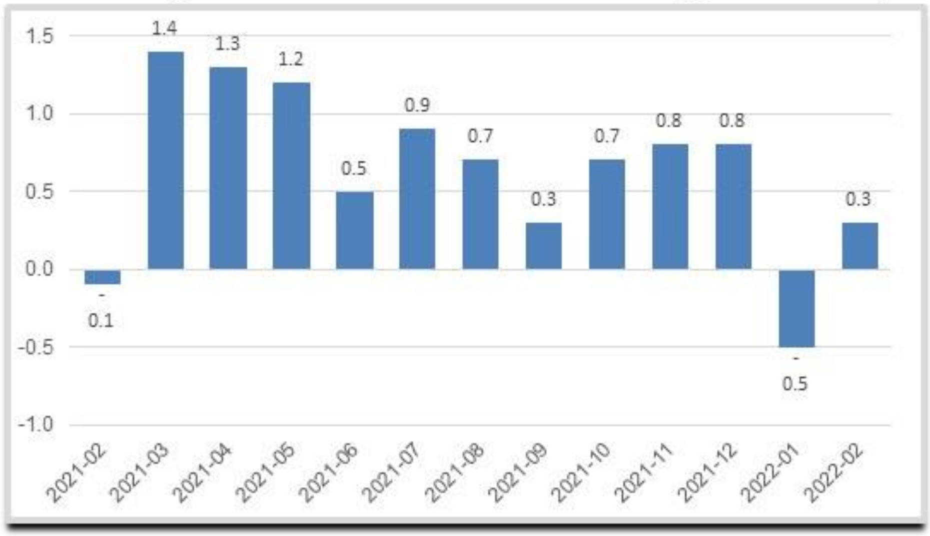
INDICATOR STATISTICS

Consecutive Bullish Weeks:	2
Cycle Inception Date:	3/31/2022
Range:	53.0 - 54.3
Mean:	53.7
Bullish Weeks YTD:	5
Bearish Weeks YTD:	9
*S&P 500	-2.5%
*DJIA	-2.0%
*NASDAQ	-3.4%

** Percentage change during current cycle*



Leading Economic Index % Change Monthly



Source: The Conference Board – last update 3/18/2022

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