DELTA
INVESTMENT
MANAGEMENT

Delta Insights
a weekly commentary on investing

April 15, 2022

Not Intuitive

The Consumer Price Index (CPI, inflation measure) was up 8.5% year-over-year, the largest 12 month increase since 1981. The Producer Price Index (PPI, inflation measure) was up 11.2% year-over-year, the highest reading on record.

To combat inflation, the Federal Reserve has begun the process of aggressively raising the Fed funds rate from zero to an expected 2.8%. Market expectations are for a 0.5% rate increase in the first week of May. With short-duration rates being lifted and long-duration rates flattening out, the yield curve inverted for two days at the start of the month.

If we add to the record-setting inflation and additional concerns including geopolitical/economic issues stemming from Russia's ongoing assault on Ukraine, China Covid shutdowns, Federal Reserve balance sheet reductions, declining fiscal stimulus and elevated gas prices, it seems intuitive the U.S. stock market may trend lower.

The stock market is known for delivering outcomes that most investors do not expect. The one-year peak for Bearish sentiment measured by the American Association of Individual Investors (AAII) was on February 23. Russia invaded Ukraine on February 24. The S&P 500 is up over 7% since the February 24 market low.

The non-intuitive market action would be for the stock market to trade even higher from current levels. Although a yield curve inversion is a good predictor of recession, it is not effective in isolation for timing a stock market exit. Typically, from the point when the yield curve inverts to the final market top before recession, the S&P 500 advances by 15%.

Other recession indicators are needed to complement the yield curve inversion signal when looking for a timely market exit. Delta uses the Leading Economic Index (LEI) six month moving average. The LEI indicator, reported monthly, appears to be at least several months away from confirming a recession indication.

In the current cycle, what is evident is the post-Covid consumer spending trend has significant momentum. The JPMorgan earnings report showed credit card sales volume up 29% year-over-year. TSA checkpoint travel numbers are often over 2 million travelers per day. This level of activity is nearly equivalent to pre-Covid levels and up 35% year-over-year. OpenTable is reporting restaurant dining has recovered to 2019 levels.

If inflation has you worried, there are reasons to expect upcoming inflation reports will be less inflationary than what we witnessed this week. Freight shipping rates are down by as much as 30%. The backlog of ships to be unloaded at Los Angeles/Long Beach (the largest shipping port in the U.S.) is trending lower highlighting an improving supply chain. Used car prices, which accounted for 1.4% of the rise in CPI, have rolled over.

With high inflation, high gas prices, rising rates and slowing economic growth, some investors are concerned the economy will return to Stagflation similar to what was experienced in the 1970s. There are enough differences between the economy today versus the 1970s that make this comparison somewhat uncertain:

- The oil price shocks from the Arab Oil Embargo, the Iranian Revolution and subsequent Iran-Iraq war dwarf the current increases in oil prices.
- The oil intensity of the US economy today is about one-third of what it was in the early 1970s.
- Inflation was substantially higher in the 1970s and the magnitude of Federal Reserve tightening was enormous relative to what is expected from the Fed today.
- Average annualized GDP growth between 1970 and 1983 was 2.8% and about 5.0% excluding recessions. Today, long-term GDP growth expectations are about 1.8% and we have been experiencing slow growth for decades. Slow growth today is the norm.

Earnings season began this week. Since the start of 2022, earnings growth expectations for the first quarter have been revised down from 5.7% to 4.5% growth. With the bar set lower, earnings upside surprises could be the near-term catalyst to lift the market higher.

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.

"I was hoping taxes would go first."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

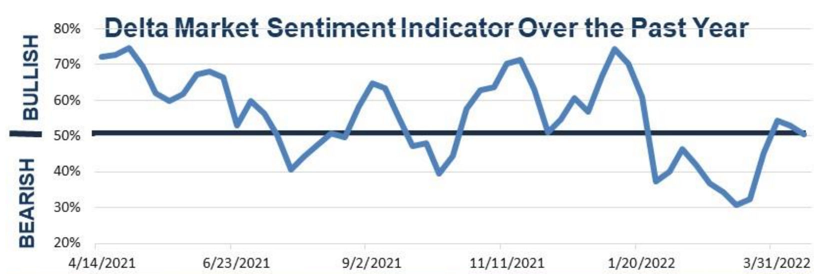
50.4

Our technical indicator decreased from 53.0 to 50.4 this week

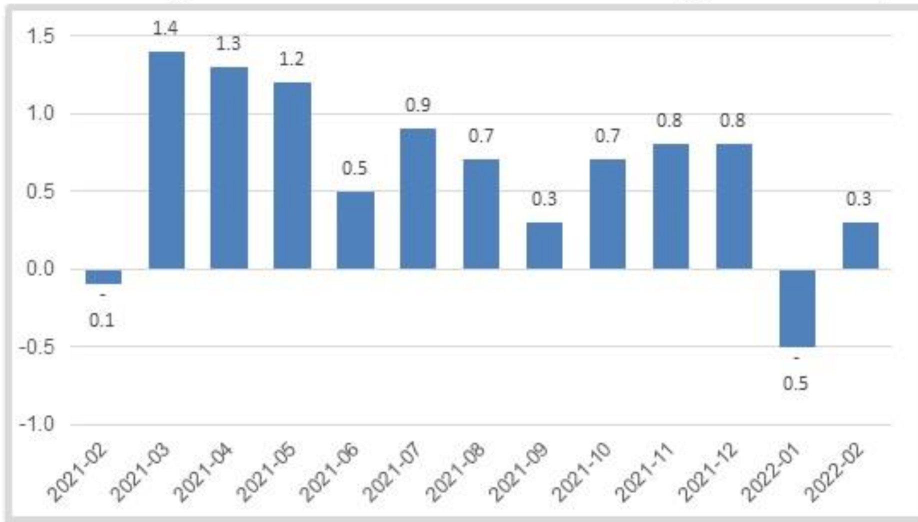
INDICATOR STATISTICS

Consecutive Bullish Weeks:	3
Cycle Inception Date:	3/31/2022
Range:	50.4 - 54.3
Mean:	52.6
Bullish Weeks YTD:	6
Bearish Weeks YTD:	9
*S&P 500	-3.4%
*DJIA	-1.0%
*NASDAQ	-6.3%

** Percentage change during current cycle*



Leading Economic Index % Change Monthly



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