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Delta Insights
a weekly commentary on investing

May 6, 2022

2022 May be the New 1990?

The investment landscape is challenged. The Fed summed it up as follows: "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain. The invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks."

What is the Federal Reserve trying to do? In their own words: "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run."

With unemployment approaching 3.5% (economy at/near full-employment), the Fed's highest priority is to lower inflation to the 2% target level. To lower inflation, they are signaling that they will keep raising the Fed Funds rate throughout the year (expect to see 50bp increases in the next couple of meetings) and they are beginning the process of reducing their holdings of Treasury and mortgage-backed securities which, in effect, pulls money out of the economy (quantitative tightening rather than easing).

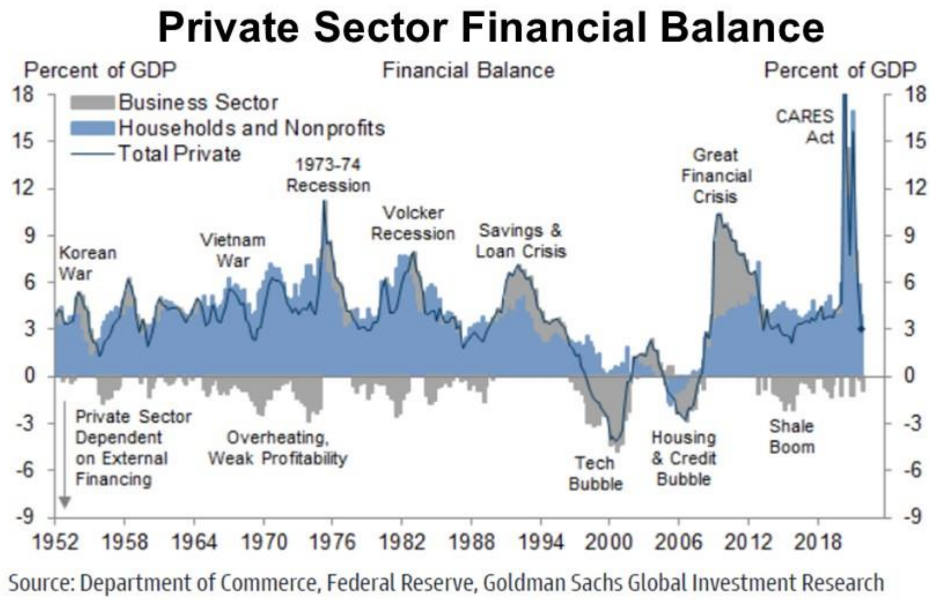
The 10-year treasury is now above 3% for the first time since late 2018.

10-Yr. and 2-Yr. Treasury Rates

Rising rates are depressing stock prices broadly as investors worry about the negative impact of higher rates on consumption. Higher rates have a particularly harmful effect on high-P/E stocks where valuations are dependent on long-duration earnings estimates.

The S&P 500 is down by about 12% and the NASDAQ is down by over 20% this year. It is the worst start to any year for the NASDAQ on record. High P/E technology innovation stocks are down roughly 50% year-to-date and 70% from their highs on average, measured by the ARK Innovation ETF (ARKK). A 70% decline is nearly as bad as the 80% loss of value in the tech bubble sell-off from 2000 to 2002.

Although it has been a weak start to the year, 2022 is more likely to be like 1990 than 2000 or 2008. In 2000 and 2008 (housing and credit bubble), households and companies were over-levered and were spending more than their income. Today, there is no such imbalance.



The private sector financial balance is the difference between total income and total spending. When balances are high and positive, the level of spending and investment is low relative to income. In contrast, with low or negative financial balances (2000 and 2008), firms will exhaust internal funding sources relatively sooner, requiring leverage or equity issuance to fund growth and the risks and costs that come with it.

In 1990, Iraq invaded Kuwait in an effort to annex the entire country. Although this act of aggression may not seem equivalent to Russia's invasion of Ukraine, it created similar, if not even higher, levels of investor anxiety. In 1989 and 1990, the Federal Reserve implemented restrictive monetary policy to reduce inflation. They raised the Fed Funds rate 10 times in eleven months. When Iraq invaded Kuwait, it created an oil price shock that when coupled with the Fed's rate increases, pushed the economy into recession. The US suffered from an eight-month long recession that ended in March 1991. Intra-year, the S&P 500 depreciated by 20%. War, rate hikes, oil-price shock, growth concerns and stock price declines all sound similar to the investment landscape of 2022.

Including dividends, the S&P was down by about 3% in 1990. The return jumps to positive 30.87% if you push out the investment time period end date by one year to January 1992. If 2022 closely follows the path of 1990, we should expect higher stock prices by year end. For now, volatility is elevated, selling pressure is intense and predominant and Delta's Market Sentiment Indicator is Bearish.

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.

Happy Mother's Day!

"Whenever Mother's Day rolls around, I regret having eaten my young."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

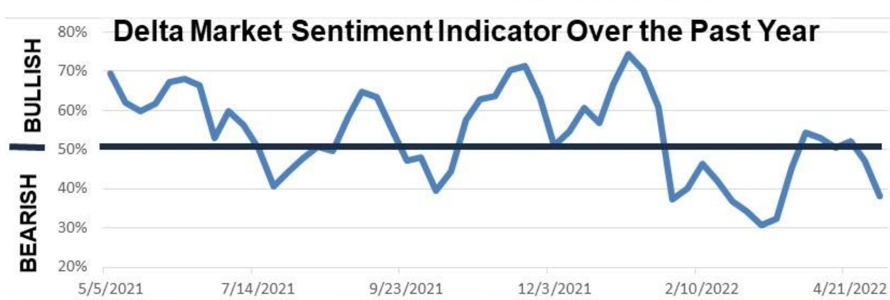
38.0

Our technical indicator decreased from 47.2 to 38.0 this week

INDICATOR STATISTICS

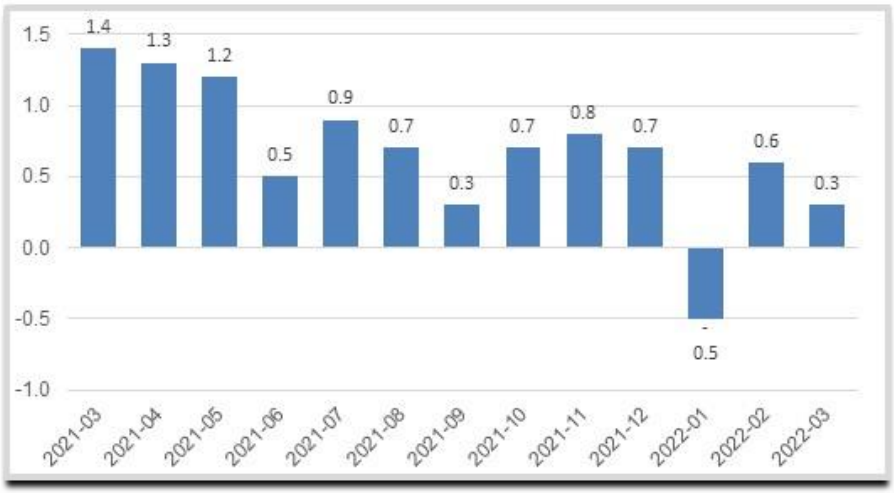
Consecutive Bearish Weeks:	1
Cycle Inception Date:	5/4/2022
Range:	38.0
Mean:	38.0
Bullish Weeks YTD:	8
Bearish Weeks YTD:	10
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

** Percentage change during current cycle*



Leading Economic Index % Change Monthly

March 2021 – March 2022



Source: The Conference Board – last update 4/21/2022
