

*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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May 13, 2022

## **Big Bear or Little Bear?**

January 4, 2022 was the most recent all-time high for the S&P 500. The stock market has been in drawdown for nearly five months. Whether its interest rates, war or inflation, the news has generally gotten worse as the year progressed. From both a duration and magnitude standpoint, this drawdown is morphing from an ordinary pullback into a bear market. Through Wednesday close, the S&P 500 is down 17.3%, the NASDAQ 100 is down 26.7%, and “innovation” stocks as measured by the ARK Innovation ETF (ARKK) are down 78%.

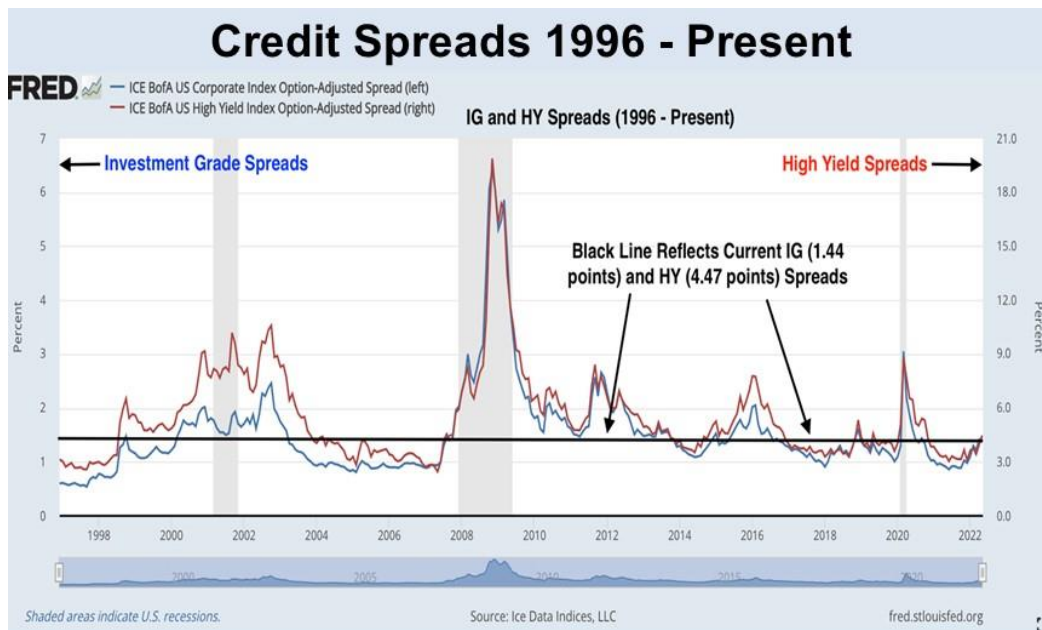
Big Bear markets involve equities losing at least half of their value and years to recover. Little Bear markets involve much less loss and occur in much shorter time periods, often much less than a year. You might consider the Covid collapse of 35% in 2020 to be a Little Bear while the three Big Bears since WW2 were in 1973/74, 2000/02 and 2008/09. Each of the Big Bears involved losses of 50%+ in the S&P and no net appreciation through most of the 1970s and from 2000 to 2013.

When we see a Big Bear, we run. We are alerted to a Big Bear by inversion of the treasury yield curve and a negative reading on the six-month moving average of the Leading Economic Index (LEI). When we see a Little Bear, we are willing to stay put with our long-term investments. Little Bear recoveries are measured in months, not years.

We currently do not see a Big Bear. Here is why:

- The six-month moving average of the LEI remains positive
- Earnings season was well ahead of expectations – S&P 500 up 9.1% versus expected 4.6%
- The P/E of the S&P 500 reached 16.8x forward 12-month earnings which is in-line with the 25-year average valuation

- Consumer demand remains strong in the face of high inflation. April core CPI was up at a 6.2% y/y pace, above consensus of a 6.0% pace, but lower than last month's 6.5%. Airfares, rents, restaurants and core goods prices are all up, much because of strong demand.
- A disrupted supply chain, especially from Ukraine, Russia and China, is a significant source of inflation. There are indications the supply chain, especially with regard to semiconductors, is improving.
- The current unemployment rate is 3.6 percent, very close to the pre-pandemic lows of 3.5 percent and lower than any point in the economic cycles of the 1980s (5.0 pct low), 1990s (3.8 pct low), or 2000s (4.4 pct).
- Job openings hit a new record last month, at 11.5 million available positions. This would not be happening if companies were worried about either the economy or their future earnings power.
- Investment grade corporate bond spreads are 1.44 percentage points over treasuries today -- levels consistent with near- or actual recessions start at 2.00 points and go up from there. (2008, 2011, 2018, 2020).
- High yield corporate bond spreads are 4.47 percentage points over treasuries -- levels above 6.00 points signal recession or near-recession (same dates as IG spreads noted above).



- Federal government tax receipts are at an all-time high.
- Household net worth is near all-time highs and although financial conditions are tightening, they continue to be easy relative to history.

## High Household Net Worth/Easy Conditions



The momentum of stock price depreciation has been powerful in the past six weeks. Better-than-expected earnings reports did not arrest the fall. What may begin to provide some stability near term are corporate stock buybacks. JPMorgan estimates that corporations will buy back \$1 trillion worth of stock this year. Announced buybacks from just Apple (\$90bn), Google (\$70bn), Microsoft (\$60bn), and Facebook (\$50bn) are \$260 billion.

Attractive valuations and better news may add additional stability to stock prices in the coming weeks and months. High-frequency data shows inflation is beginning to abate. The 10-year treasury has pulled back from 3.1% this week to 2.8%. If long-duration interest rates are near where they will settle in, much of the price/earnings multiple pressure will come off of the technology stocks. If historic levels of investor pessimism starts to improve, we could see the “Fear Of Missing Out (FOMO)” bull trade return. The Delta Market Sentiment Indicator (MSI) is 26.8 this week which is both Bearish and oversold.

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



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

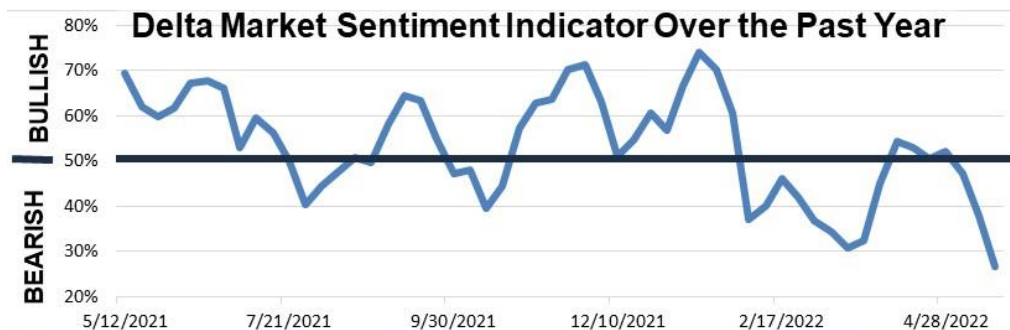
**26.8**

Our technical indicator decreased  
from 38.0 to 26.8 this week

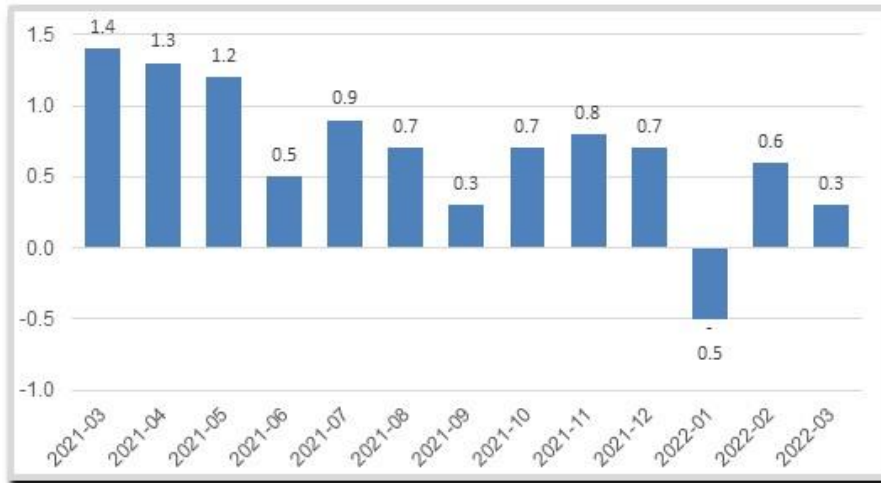
### INDICATOR STATISTICS

Consecutive Bearish Weeks:	2
Cycle Inception Date:	5/4/2022
Range:	26.8 - 38.0
Mean:	32.4
Bullish Weeks YTD:	8
Bearish Weeks YTD:	11
*S&P 500	-8%
*DJIA	-6%
*NASDAQ	-11%

\* Percentage change during current cycle



## Leading Economic Index % Change Monthly March 2021 – March 2022



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

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