

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.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

June 10, 2022

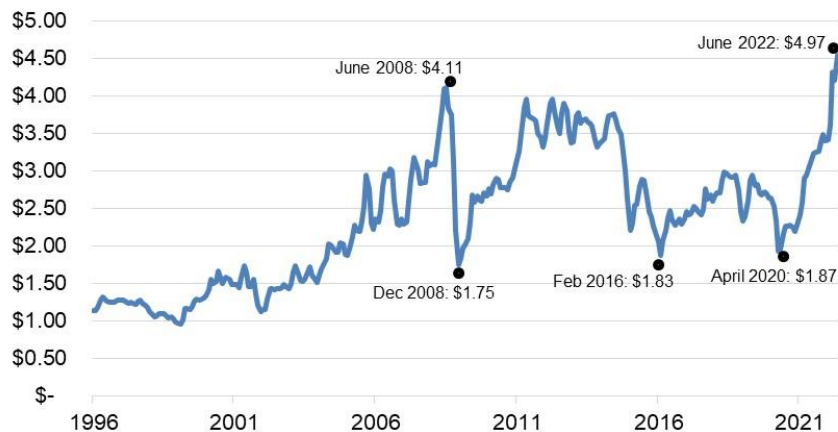
Hurricane

Jamie Dimon, CEO of JPMorgan Chase, told investors at an analyst meeting last week to “brace yourself” for an economic hurricane caused by Fed tightening and food and fuel inflation as a result of the war in Ukraine. The national average gasoline price reached \$4.92/gallon this week. In California, we are already experiencing sticker shock when we fill our cars with gasoline at \$6.50 per gallon and a fill-up costs \$100. In Mendocino California, gas prices have reached \$9.60 per gallon.

Dimon believes oil could reach \$150 - \$175/barrel which would cause the rest of the United States to catch up to California gas prices. Retail gas prices are already at record highs, rocketing 165% from April 2020 Covid lows and 75% above the 5-year average of \$2.84.

US Retail Gasoline Prices

Dollars per Gallon



Source: US Energy Information Administration

While retail prices are making all-time highs, the price per barrel is still below peak levels.

US Oil Prices

Dollars per Barrel

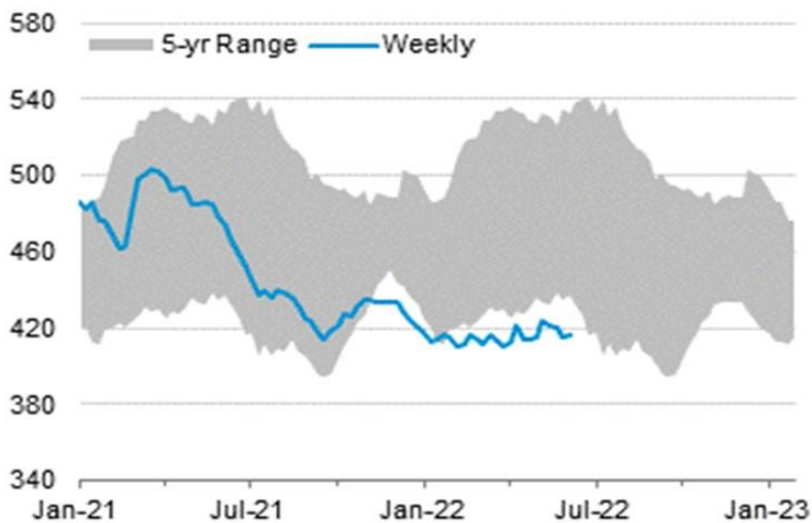


Source: US Energy Information Administration

A significant portion of the rise is due to the Russia conflict. Typically, geopolitical turmoil/conflicts add \$20/barrel. Analysts believe Russian's war with Ukraine is adding twice the normal risk premium, \$35-\$40/bbl. The chart below shows how US crude oil stock is below the 5-year range (and was before the war in Ukraine started) which is also impacting pricing.

US Crude Oil Stock

Millions of Barrels



Source: US Energy Information Administration

There is little doubt that a price per barrel higher to \$150-\$175 would have a significant negative impact on the middle class and their consumption of other goods and services.

Rising transportation costs will reduce corporate profitability. This week Target (TGT) and Union Pacific (UNP) reduced their margin guidance. With Target reducing their guidance twice in a three-week period, this may be more company specific.

The “hurricane” forecast is not entirely improbable. What makes it uncertain is it is based on predicting future oil prices and the outcome of the invasion of Ukraine. Projecting what will happen with either of these factors is at best, a guess. It is tempting to project forward the conditions of today into tomorrow. But that is all it is. Even in times of relative stability, forecasting oil prices is so difficult that most of the major oil producers stopped attempting to forecast the commodity price years ago. So far, the entire invasion of Ukraine including the resilience of Ukraine has been a surprise. It would not be surprising if the next 100 days of Ukraine’s history are filled with even more unpredictable surprises.

For now, the bullish case rests on:

- High bearish sentiment (inverse indicator)
- China reopening
- Corporate and insider stock buying
- Reasonable valuations
- Low probability of recession in 2022
- Strong labor market
- Strong consumer spending
- Abating inflation
- Earnings growth
- Strong consumer and corporate balance sheets – interest coverage ratios robust

The Dimon Hurricane forecast may prove accurate. On the other hand, it may not. Where it is useful is in its identification of sources of risk. As the year progresses, we should closely monitor the impact of higher fuel prices on broader consumption. We should monitor the 10-year treasury rate to see if it starts trending higher from its current ~3% level. A sustained move in the 10-year treasury towards 3.5% or higher and slowing consumption trends would indicate storm conditions approaching. This week, the winds are relatively calm.

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.



“Good heavens! Someone forgot to batten down Emily Murdock!”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

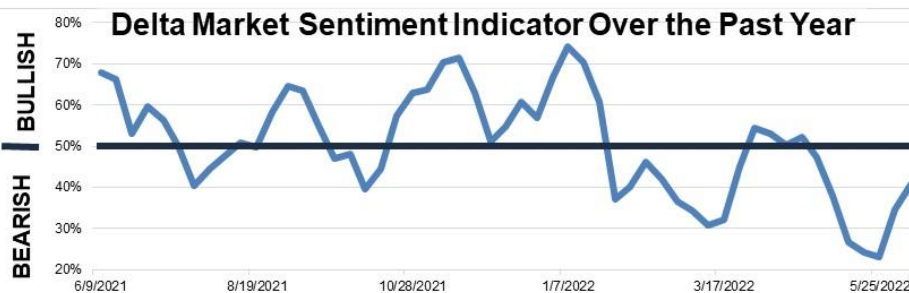
40.8

Our technical indicator increased from 34.6 to 40.8 this week

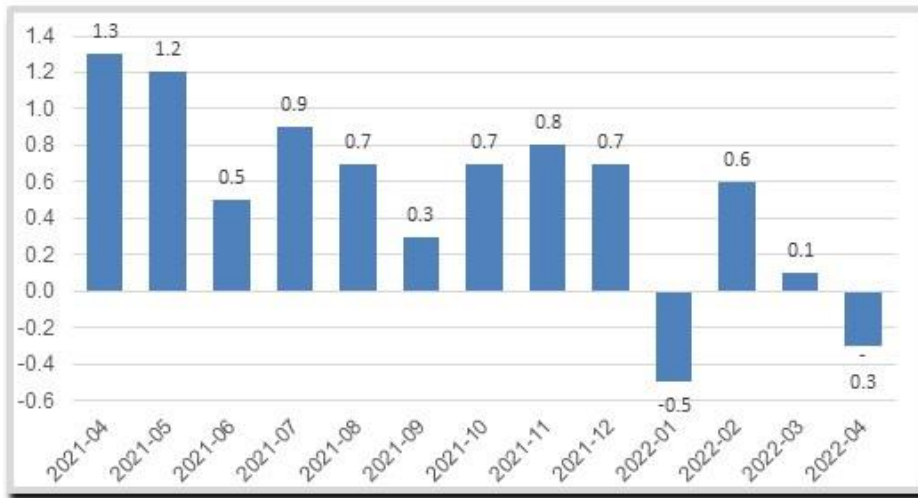
INDICATOR STATISTICS

| | |
|----------------------------|-------------|
| Consecutive Bearish Weeks: | 6 |
| Cycle Inception Date: | 5/4/2022 |
| Range: | 23.0 – 40.8 |
| Mean: | 31.2 |
| Bullish Weeks YTD: | 8 |
| Bearish Weeks YTD: | 15 |
| *S&P 500 | -4.7% |
| *DJIA | -3.3% |
| *NASDAQ | -6.4% |

* Percentage change during current cycle



Leading Economic Index % Change Monthly April 2021 – April 2022



Source: The Conference Board – last update 5/19/2022

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