

*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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August 5, 2022

## **Inflation Cost Too High**

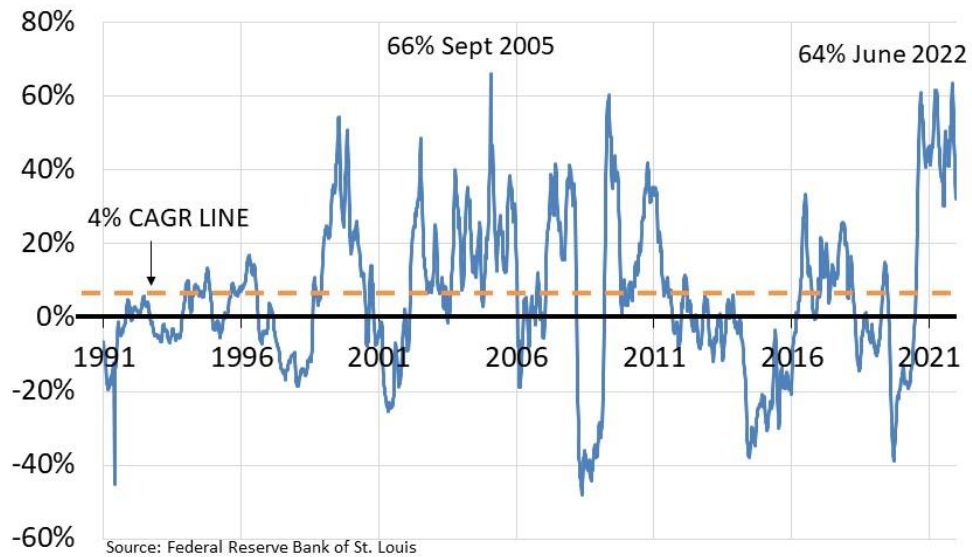
“There is risk of doing too much, but a greater risk in doing too little,” says Federal Reserve Chairman Jerome Powell. Thus, we got the hammer, not the chisel from his toolbox to combat the highest inflation in decades. The swift rate increases so far this year takes rates to the Fed’s *neutral* range of 2.25-2.50 (vs 0.00-0.25 at the start of the year). Borrowers were spoiled having historic low rates for so long. Something had to give. Someone had to blink. Coming from such a low level, the rate increases felt more like a sledgehammer was used to nail down the inflation spike, but again, we are just back to neutral.

Headline CPI has likely peaked due to commodity price changes. Energy and agricultural prices are pulling back. On June 13, gas prices exceeded \$5/gallon nationally and the year-over-year percentage change was 64%. The only period higher on an annual basis was in September 2005. Gas prices have fallen since mid-June. Now over the past 12 months, gas prices are up from \$3.16 to \$ 4.19, +32% year-over-year.

Gas prices are extremely volatile. Since 1990, gas prices have risen CAGR 4% at these levels. When Nick worked at Chevron (many moons ago) predicting oil prices, they concluded they could not and used a 5-year average. The 5-year average is currently \$2.80. The war in Ukraine accounts for a significant portion of the premium. Another factor that will weigh on us for years is the curtailed capital investment by the oil companies the past couple of years. Gas makes up only 4% of the index, but admittedly takes a higher percentage of the headlines and certainly impacts the lower earners disproportionately.

# Gas Price Annual Change

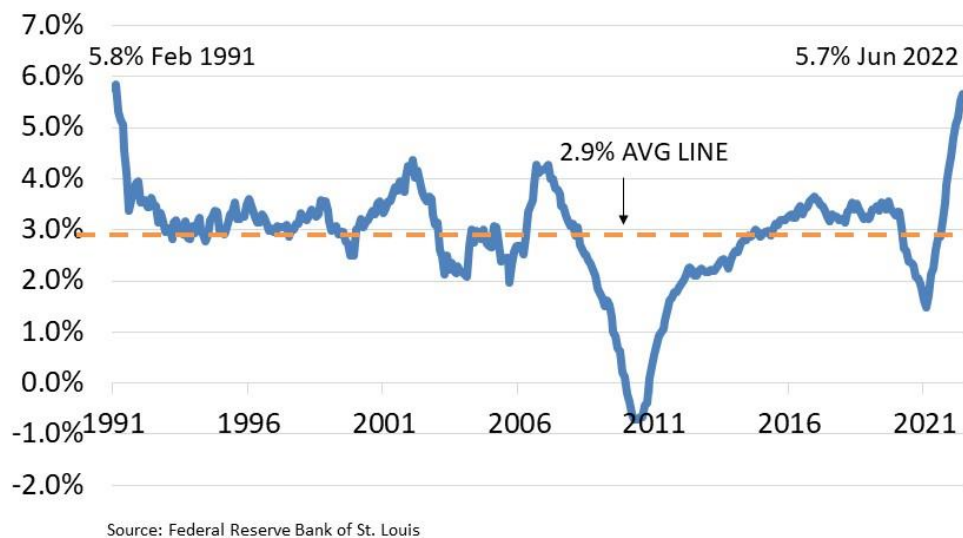
1991 - 2022



One of the biggest drivers of core inflation is rent. The annual apartment rent index was 5.7% in June, the highest since February 1991. On the bright side, there are signs that rents are falling, and that the CPI rent calculation has overshot. Data points like this will likely slow the Fed's hammering – the market is pricing this in.

# Rent of Shelter Annual Change

1991 - 2022



Companies are reporting better than expected earnings. Fears of a collapse in sales and corporate margins are overblown. While profit margin forecasts are coming down from peak levels of 13.5% to 12.5%, revenues continue to be raised up and to the right. The market is signaling that the Fed does not have much further to go. Inflation appears to have peaked.

### **Delta MSI Turns Bullish**

The Delta MSI turned back to bullish this week. Given the market strength, this was to be expected. The move from 17.9 to 61.6 (+43.7) over the past two weeks is the second largest two-week advance in the past 10 years – the largest +44.1 occurred at the end of May 2020 when the market climbed out of the Covid recession.

### **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).



*“Make a note, Ellen—one Speedo, size 54.”*

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

61.6

Our technical indicator increased  
from 38.6 to 61.6 this week

### INDICATOR STATISTICS

Consecutive Bullish Weeks:	1
Cycle Inception Date:	5/4/2022
Range:	61.6
Mean:	61.6
Bullish Weeks YTD:	9
Bearish Weeks YTD:	22
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

\* Percentage change during current cycle



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