

*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 26, 2022

## **Earnings Without Energy**

We have had a couple of back-to-back quarters of negative real GDP growth. This is typically the layman's definition of recession. Many market strategists and economists have said we are not in recession because corporate earnings are growing.

With 90% of the S&P 500 companies having reported second quarter earnings, the overall earnings growth rate of the S&P 500 is 6.7%. On the surface, this does appear to be a positive.

It turns out that when we remove the very positive year-over-year earnings growth of the energy sector (up 299%), the rest of the S&P 500 had a year-over-year decline in earnings of -3.7%. Negative earnings growth of the S&P 500 ex-energy reinforces the argument that the economy is currently in a recession.

A strong labor market is often cited as evidence the economy is expanding and inflationary pressures remain strong. When we look at current employment statistics from online job listings, we see job openings have declined by about 40% in recent months. The Goldman Sachs index of hiring expectations has moderated sharply since March.

### **Hiring Expectations Have Moderated Sharply**



Employment is a lagging indicator for recessions. A recent survey of business executives by Price Waterhouse Coopers (PwC) indicated that 47% of companies are considering or plan to reduce their company's overall headcount. Typical of recessionary times, we often see the labor market begin to contract when the recession has already begun.

Anemic earnings and a slowing labor market suggest inflation will decline sooner and by more than currently expected. If this proves to be the case, the Fed should raise rates less than expected which is supportive of higher P/E multiples and less of a dampener on economic growth. Bad news now is good news for the stock market.

### **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).



*“What’s this they say, Billy, about a new, more virulent strain of teen-ager?”*

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# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

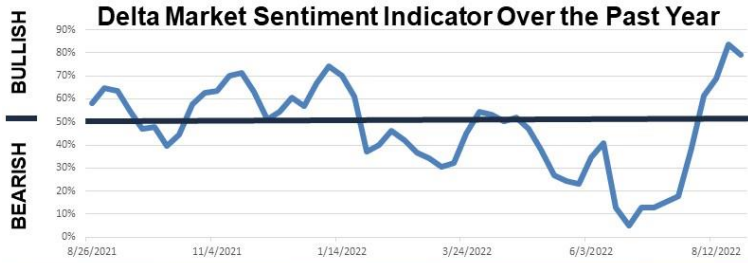
**78.9**

Our technical indicator increased from 83.5 to 78.9 this week

## INDICATOR STATISTICS

Consecutive Bullish Weeks:	4
Cycle Inception Date:	8/4/2022
Range:	61.6 – 83.5
Mean:	73.3
Bullish Weeks YTD:	12
Bearish Weeks YTD:	22
*S&P 500	0.8%
*DJIA	1.0%
*NASDAQ	-1.0%

\* Percentage change during current cycle

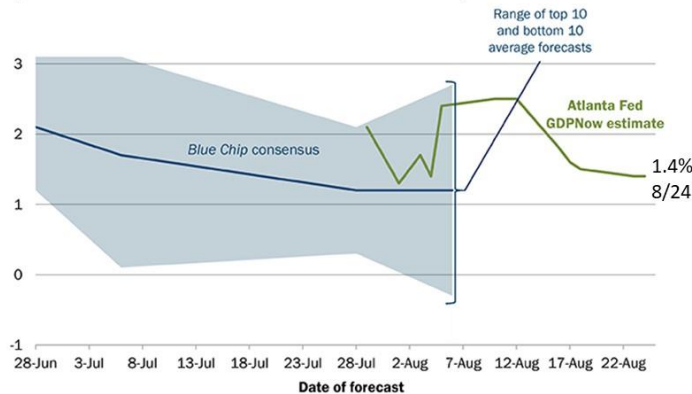


## Leading Economic Index % Change Monthly July 2021 – July 2022



Source: The Conference Board – last update 8/18/2022

## Atlanta Fed GDPNow Forecast Real GDP Estimate for Q32022



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts  
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

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