

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

November 4, 2022

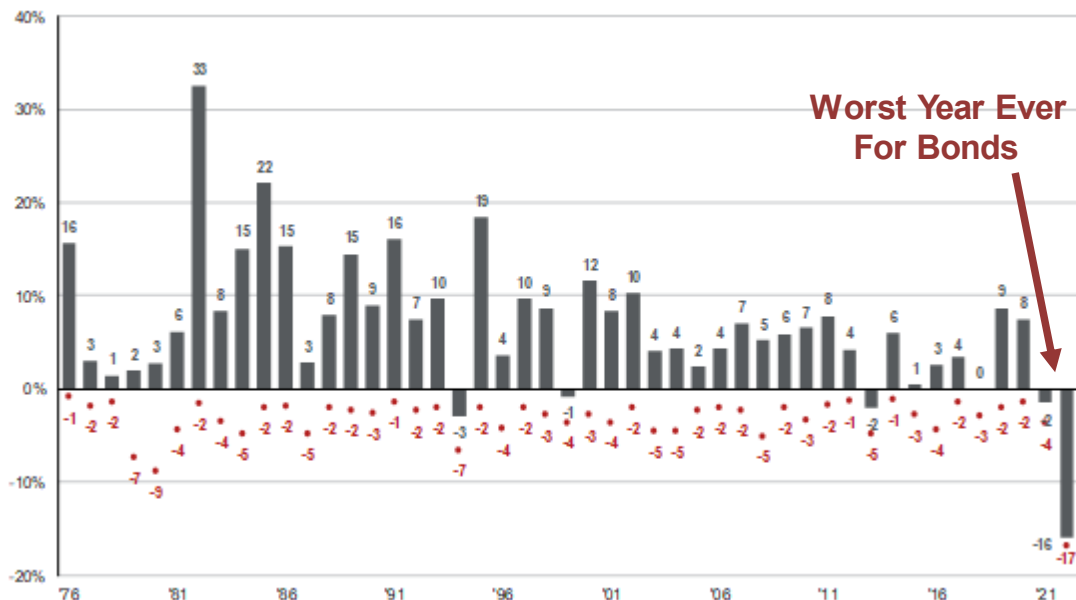
**Income From Fixed Income**

The Federal Reserve is intent on raising interest rates to a level that makes them confident that inflation will be roughly 2% per year. They understand that this objective may cause below trend economic growth and a slowdown in the labor market.

Rising rates are particularly destructive to high-multiple equities. The NASDAQ is down by roughly 35% year-to-date. Low multiple, value stocks suffer from less multiple compression in a rate rise cycle. The Dow Jones Industrial Average which holds a higher percentage of low-multiple bank and energy stocks than the NASDAQ is down 12% year-to-date.

Rising rates are also destructive to fixed income valuations. 2022 is the worst year on record by far for the Bloomberg U.S. Aggregate bond index.

**Bloomberg U.S. Agg. Annual Returns and IntraYear Declines**



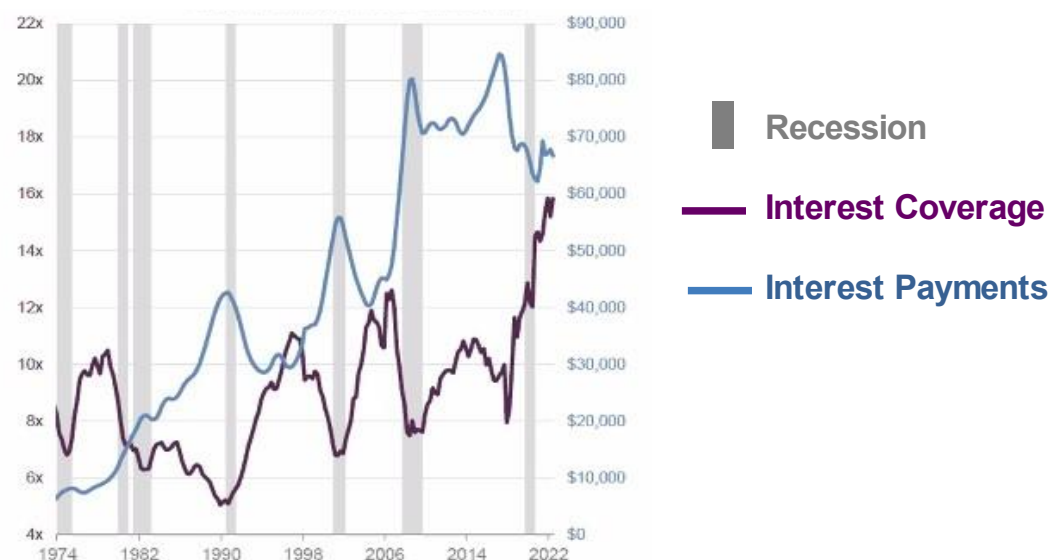
In addition to being the worst year on record, it also is the first time the Bloomberg U.S. Aggregate bond index has had two consecutive negative return years.

Whether it's in equities or fixed income, markets tend to rebound in the wake of bear markets. The bond bear market is unprecedented in magnitude and duration.

Fixed income yields are becoming enticing for the first time in years. For example, some money market funds pay 2.9%. The two-year U.S. treasury pays 4.75%. Some high-yield municipal funds pay over 7% interest federal tax free.

Credit risk appears to be subdued. Corporations have the highest interest coverage ratio since 1967 (missing an interest payment causes delinquency and default).

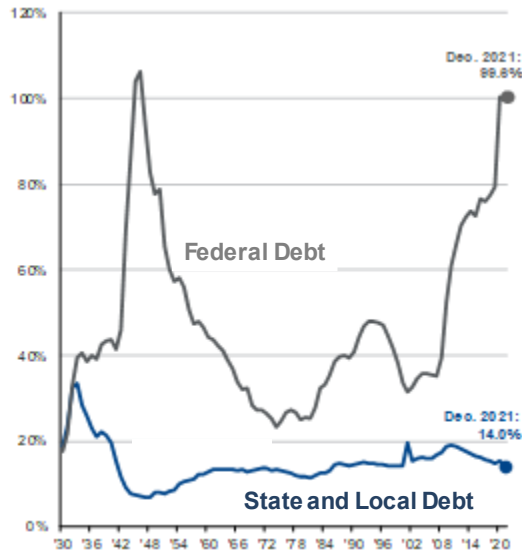
### Highest Interest Coverage Ratio Since 1967



The bond default rate on non-investment grade debt is 1.59% versus the long-term average of 3.2%. Recovery rates remain at record highs, ~56.5% versus the 25-year average of 39.9%.

Unlike the Federal Government, state and local government debt is well below peak levels. Municipal finances are strong as local governments were slow to re-hire/new-hire in the wake of Covid. Payroll is by far the single largest expense for local governments.

## State, Local and Federal Net Debt



% of GDP  
1930-2021

The Fed is clearly stating that it plans to continue to raise rates. The next rate increase is expected to be 0.50% - 0.75% in December. As mentioned above, rising rates are destructive to both equity and bond prices. It may be a little early to aggressively add to your fixed income positions, but we are getting close.

The bond market is projecting the peak in the Fed Funds rate in March 2023. It is possible it comes sooner if we see clear signs inflation is coming down. One indicator that the market is “looking through” additional rate hikes is if bond prices remain firm even as the Fed raises rates. For the first time in years, a fixed income portfolio may be a source of meaningful income.

### 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

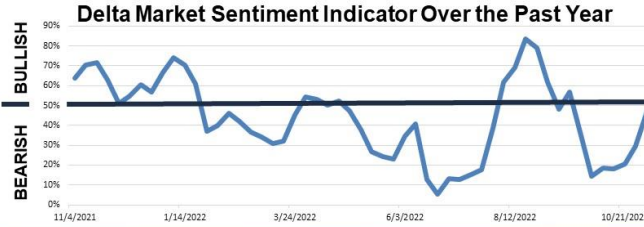
**47.1**

Our technical indicator increased from 29.8 to 47.1 this week

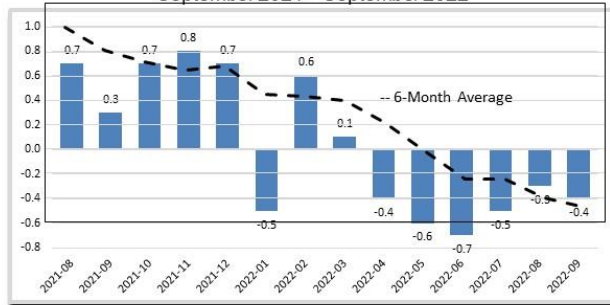
INDICATOR STATISTICS

Consecutive Bearish Weeks:	7
Cycle Inception Date:	9/23/2022
Range:	14.3 – 47.1
Mean:	26.2
Bullish Weeks YTD:	15
Bearish Weeks YTD:	30
*S&P 500	-0.6%
*DJIA	6.5%
*NASDAQ	-6.1%

\* Percentage change during current cycle

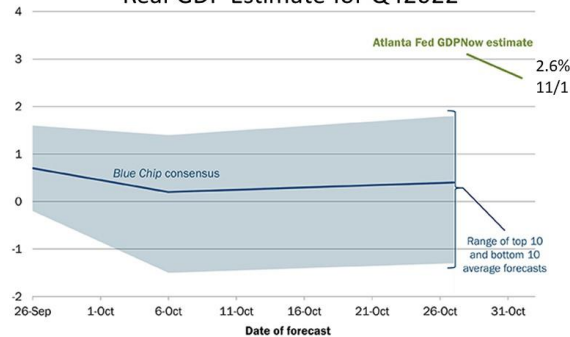


## Leading Economic Index % Change Monthly September 2021 – September 2022



Source: The Conference Board – last update 10/20/2022

## Atlanta Fed GDPNow Forecast Real GDP Estimate for Q42022



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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