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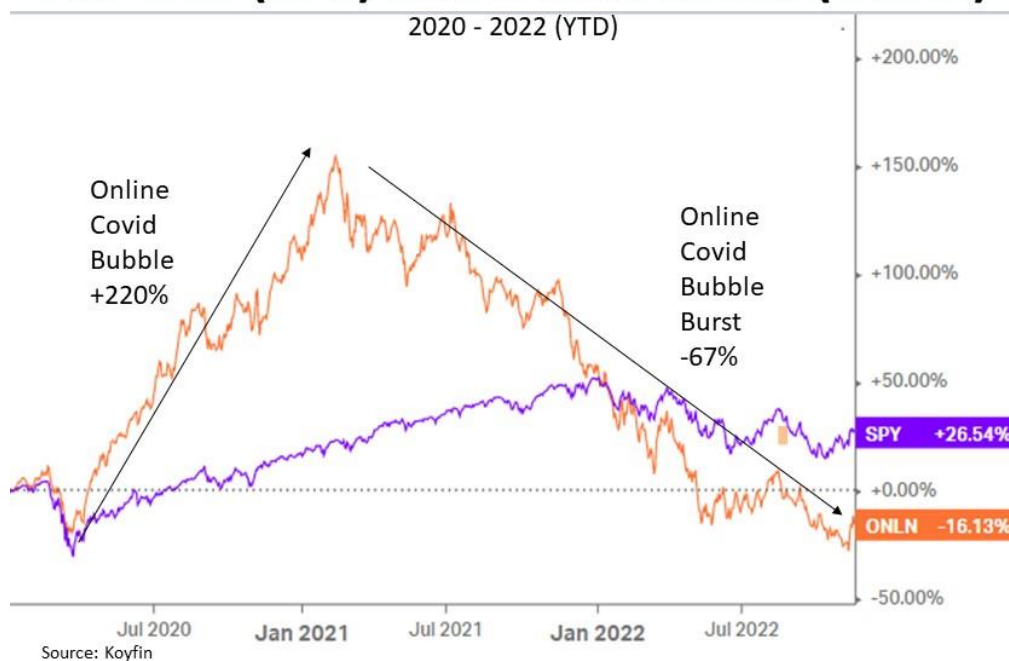
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November 18, 2022

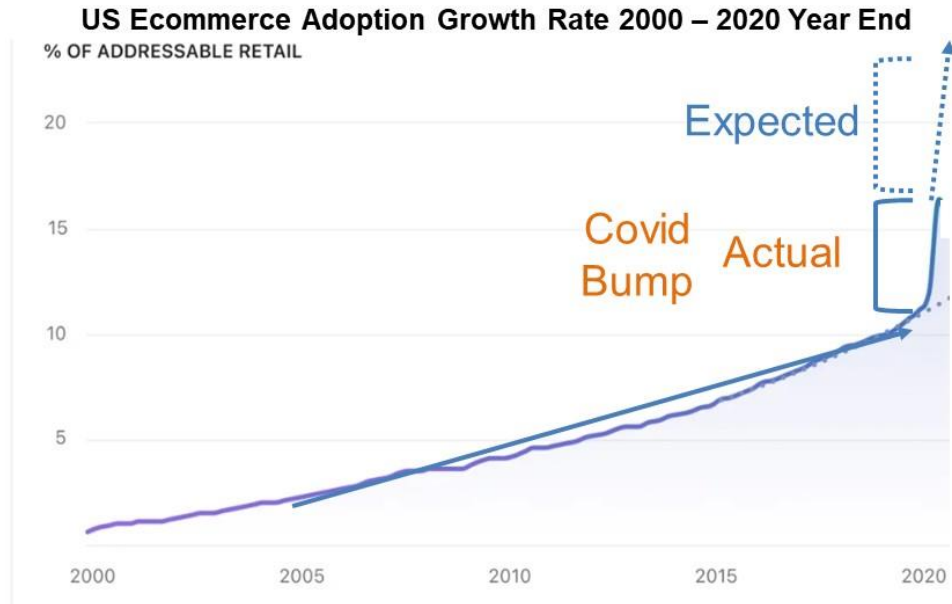
The Truth Lies Somewhere in the Middle

Online retail stocks have been hard hit in the wake of Covid. If you use the online retail ETF (ONLN) to measure performance, ONLN is down -67% from highs and well below where it was trading pre-pandemic after appreciating 220% from pandemic lows. The same is true for online retail ETFs EBIZ and IBUY.

S&P 500 (SPY) and Online Retail (ONLN)



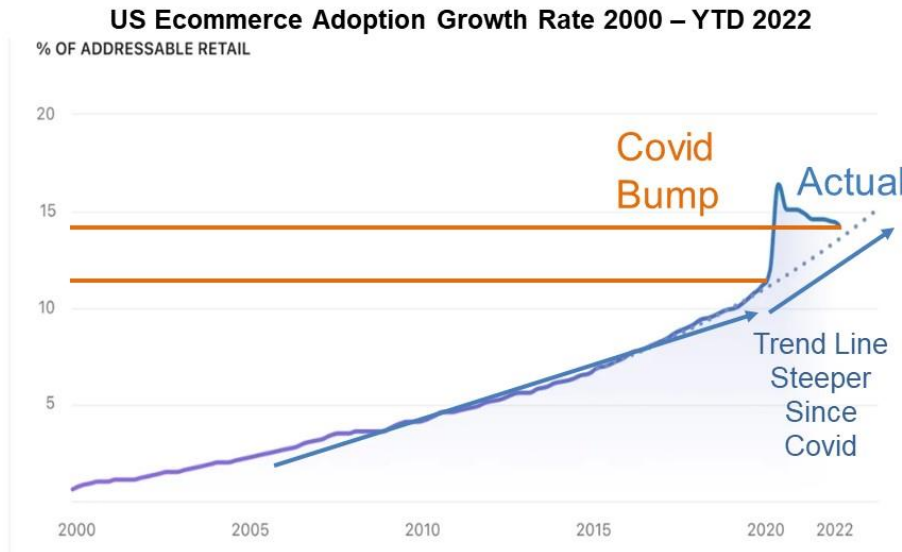
It is easy to understand what caused the incredible appreciation during the pandemic. Bricks-and-mortar retail was closed and consumers were required to stay home. Shopping moved online. The chart below shows the “hockey stick” effect on U.S. Ecommerce adoption when you close stores and require people to stay home.



What happened during Covid is many online retailers extrapolated the rapid acceleration of online shopping during Covid into a long-term trend. This proved to be a costly mistake.

For example, Amazon spent over \$2 billion adding capacity to handle greatly increased customer flow. They bought 110 aircraft, 50,000 trailers, 400 fulfillment centers, 150 sortation centers, and 1,000 delivery stations across the globe. The new reality, Reuters reported, began to emerge halfway through 2021. “Amazon was on track to double its warehouse and delivery network, a feat necessitated by consumers’ embrace of at-home shopping to avoid COVID-19 infections in stores.” Amazon’s chief financial officer admitted the company was “overbuilt for current demand.” The increased costs contributed to a net loss of \$3.9 billion in the second quarter, after having a profit of \$8.1 billion in the same quarter the previous year. Clearly Amazon was not the only online company to over-invest in a trend that faded.

What happened post Covid as bricks-and-mortar stores reopened is many consumers went shopping offline. The chart below shows how the US Ecommerce adoption growth rate reverted toward the long-term trend line in 2021 and 2022.



The truth about Covid’s impact on online shopping behavior lies somewhere in the middle. The initial expectations for online spending were overly optimistic. But, the pace of Ecommerce adoption has increased meaningfully from the pace during the prior 20-years. U.S. consumers are shopping online in much larger numbers than they were pre-pandemic.

Online shopping as a percent of the addressable retail market in the US is still below a 15% market share. There is plenty of room for further growth and it appears the growth rate of online shopping has accelerated. As we saw with Walmart this week on their earnings call, high quality retailers can be nimble when it comes to correcting poor investment decisions in inventory and/or capacity. It would not be surprising to see a recovery in online retail stocks as companies clear out the Covid excesses and the online secular bull trend becomes more evident in company earnings performance.

From an intermediate-term perspective, the stock market turned Bullish this week on a technical basis. After eight weeks of Bearish readings, the Delta MSI is Bullish this week.

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.



"Who tipped off the turkey?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

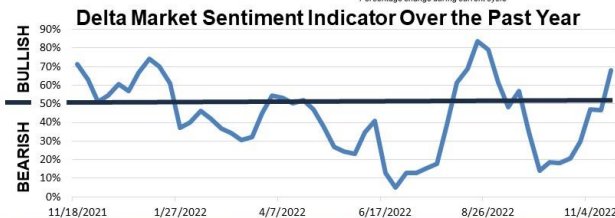
67.8

Our technical indicator decreased
from 46.7 to 67.8 this week

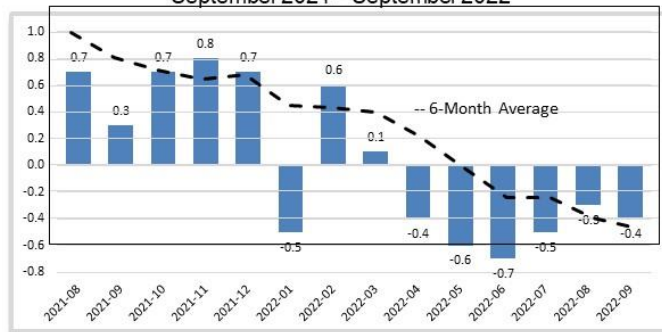
INDICATOR STATISTICS

Consecutive Bullish Weeks:	1
Cycle Inception Date:	9/23/2022
Range:	67.8
Mean:	67.8
Bullish Weeks YTD:	12
Bearish Weeks YTD:	31
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

* Percentage change during current cycle



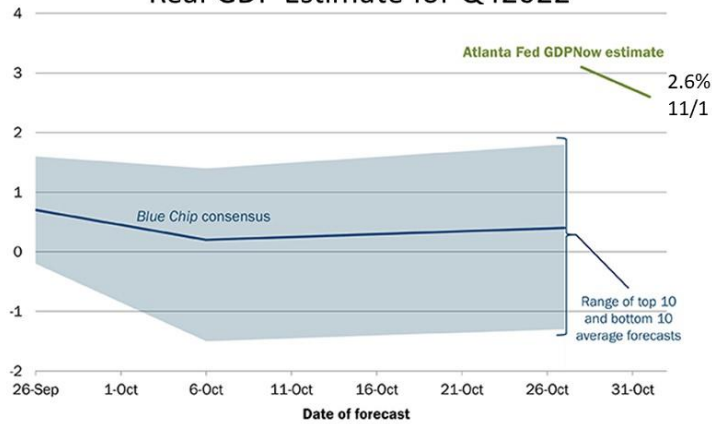
Leading Economic Index % Change Monthly September 2021 – September 2022



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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