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Delta Insights
a weekly commentary on investing

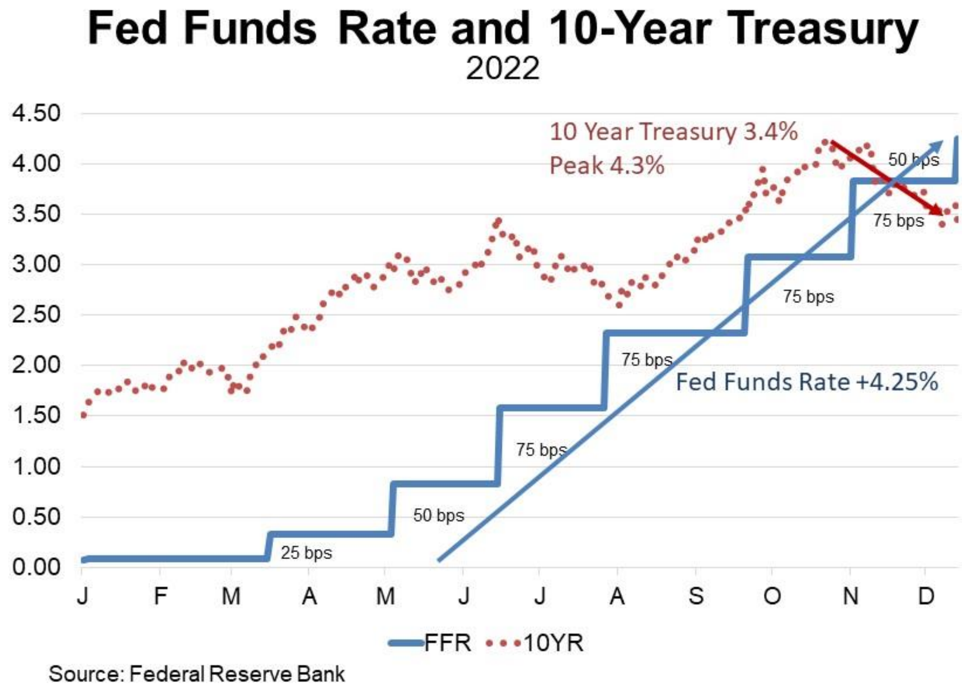
December 16, 2022

Fed Peak Rate Causes Stock Market to Be Peaked

The Fed raised the Fed Funds rate by the expected 0.50% this week to 4.25% - 4.50%. Peak Fed Funds rate is expected to be 5.00% to 5.25% reached with 0.25% hikes in February, March and May. The Fed is projecting an inflation rate of 3.5% in 2023 and 2.5% in 2024.

The 2-3% decline in the major stock averages the day after the announcement may be interpreted as the equity markets viewing the path of Fed rate hikes as too aggressive. Excessive rate hikes will trigger a deeper economic setback. With better-than-expected CPI reports over the past couple of months, equity investors were hoping for less hawkish news from the Fed.

Possibly more concerning is the debt markets began to signal roughly two months ago that rates were being pushed too far. In the face of a 0.75% rate hike in November and a 0.50% rate hike this month, the 10-year treasury rate has fallen from 4.3% to 3.4%. The current Fed Funds rate (rate of overnight lending among U.S. banks) is now roughly a full percentage point higher than the 10-year treasury rate. The yield curve is significantly inverted – a very robust indicator of recession.



In March of 1980, inflation peaked at 14.8%. Paul Volcker, chairman of the Federal Reserve at that time, raised the Fed Funds rate to 20% by June 1981. By 1983, inflation was below 3%. The unemployment rate rose to over 10% and the economy experienced a two-year recession. Over the following 18 years, the stock market made its strongest bull run ever.

Like Volker, current Fed Chairman Jerome Powell is making clear his primary mission is to tame inflation, even if it costs the economy a recession. This is especially true if the labor market continues to hold up relatively well.

There remains a level of disbelief. Whether because of political considerations or very high government and corporate debt levels, many market observers do not believe the Fed will persist with its planned rate hikes. The steady decline of the 10-year treasury suggests that the economy will slow to an extent that the Fed will not keep pushing rates higher.

The good news is that the 10-year treasury is signaling we are getting closer to the end of Fed rate hikes. The bad news is the 10-year treasury is signaling we are likely going to feel some economic pain in the process of reaching the peak Fed Funds rate. The competing forces of nearing-the-end-of-rate-hikes versus worsening economic slowdown will drive high market volatility. For long-term investors, the good news is the Fed is telling us that rate hikes should at least be paused in May of 2023. For shorter term investors, volatility creates opportunity.

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"I've called the family together to announce that, because of inflation, I'm going to have to let two of you go."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

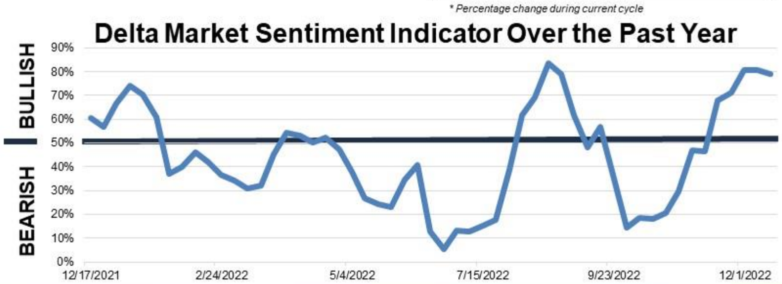
78.8

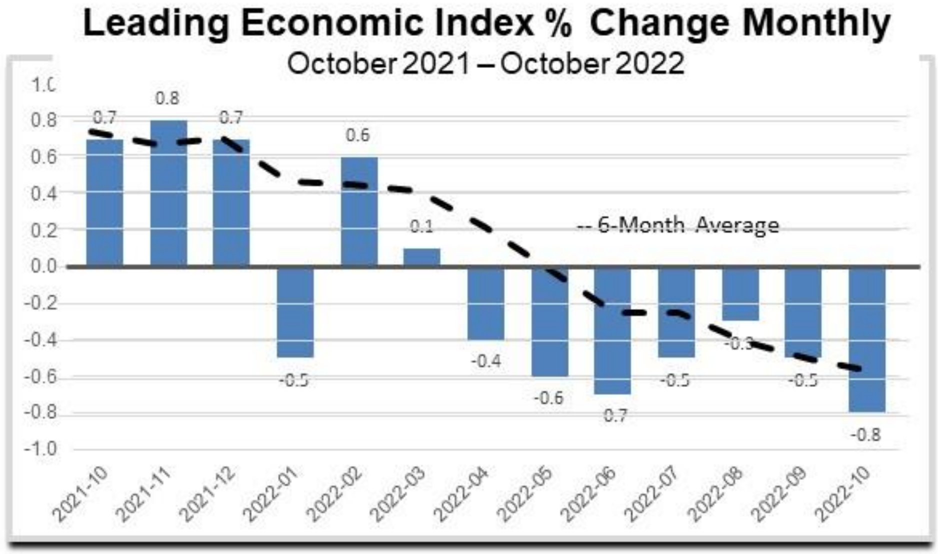
Our technical indicator declined from 80.6 to 78.8 this week

INDICATOR STATISTICS

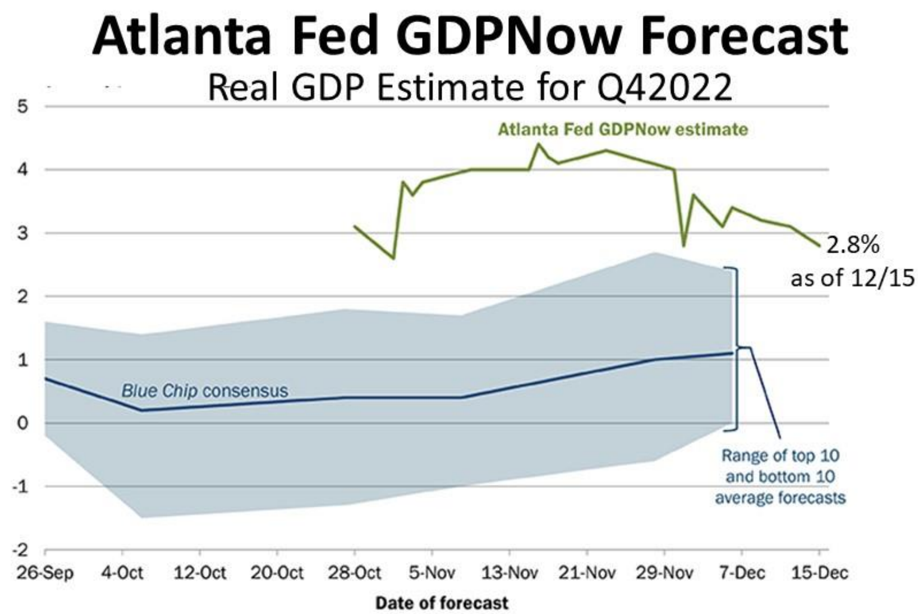
Consecutive Bullish Weeks:	5
Cycle Inception Date:	11/17/2022
Range:	67.8 – 80.6
Mean:	75.1
Bullish Weeks YTD:	20
Bearish Weeks YTD:	30
*S&P 500	0.1%
*DJIA	-0.6%
*NASDAQ	-1.1%

* Percentage change during current cycle





Source: The Conference Board – last update 11/18/2022



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*