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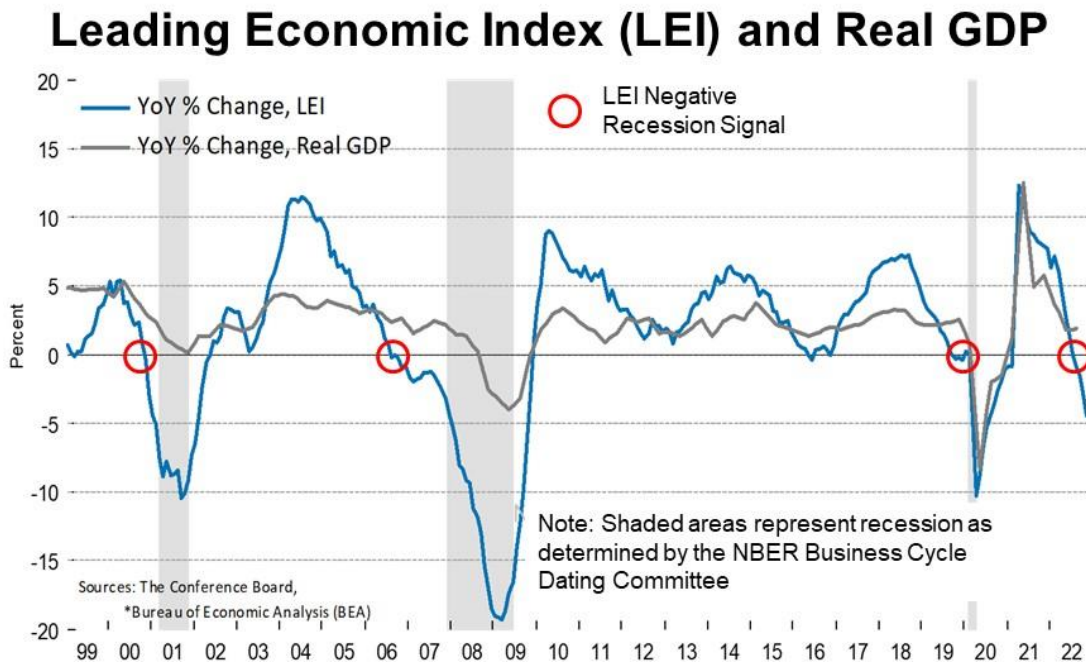
Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

December 23, 2022

The Recession/Price Conundrum

Two of the most robust, leading indicators of recession are the inverted yield curve and a negative six-month moving average of the Leading Economic Index (LEI). The six-month moving average of the LEI turned negative in June and the 2yr/10yr treasury inverted in July.

The chart below shows the relationship between the LEI and real GDP. When the LEI goes negative, so does the year-over-year percent change in real GDP. Normally, the LEI turning negative comes well ahead of a recession and significant stock market decline.



The difficulty with 2022 is the LEI and yield curve recession indicators turned negative when the S&P 500 had already lost about 24% of its value. This is highly unusual as

these “leading” recession indicators typically provide six to eighteen months of advance warning prior to a significant market pullback. In 2022, the damage had been done by the time the warning was received.

The question is has there been sufficient stock price damage to warrant staying invested. We are past peak inflation. The Fed is slowing their pace of rate hikes and saying they will pause in May. The stock market is a leading indicator. This may be a case of it is darkest just before dawn.



As of this writing and despite a tremendous amount of volatility, the buy-and-hold approach from the June lows has worked. The market is up from the lows.

The likelihood the economy will experience recession in 2023 is very high. But, if the recession is light and corporate earnings are not too badly damaged, the stock market may continue to take a volatile path higher as it looks forward to a recovery in the second half in 2023. We should see the economy of China bounce back from Covid shutdowns and hopefully a resolution to the Russia/Ukraine conflict.

Third quarter 2022 GDP was up at an annual rate of 3.2% and the Atlanta Fed GDPNow model is estimating a 2.7% advance in the fourth quarter. Although unlikely, it is possible we avoid recession entirely.

On the other hand, a severe recession with significant reductions to earnings estimates could cause the S&P 500 to trade down to or below the 2022 lows. This is the recession/price conundrum. With the S&P 500 already down by about 20%, has the bulk of the damage been done or should an investor reduce equity exposures further.

The median S&P 500 market decline in recessionary periods (12 events) since 1947 is 24%. But, if the potential approaching recession is like what was experienced in 1973-74, 2001 and 2008, the price depreciation could be twice as bad as the median.

For the most part, Delta has reduced equity exposures because of negative recession indications and elevated uncertainty. Solutions to the recession/price conundrum include increased fixed income, defined outcome ETFs and hedged equity. Many of the tools/securities available to investors today to deal with this uncertainty are relatively new. Give us a call or send an email if you would like to explore some of these solutions in greater detail.

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.



"This one's from you know who, so make a fuss and thank him."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

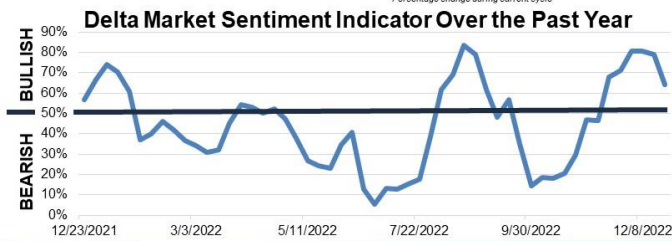
64.2

Our technical indicator declined from 78.8 to 64.2 this week

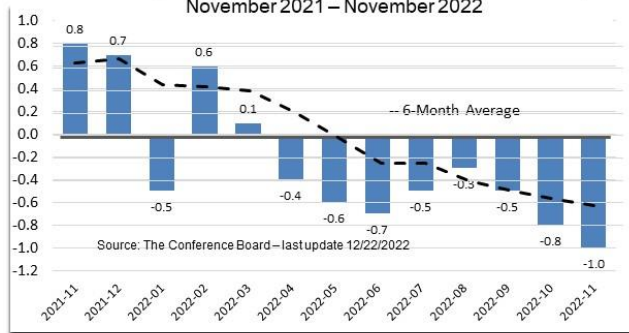
INDICATOR STATISTICS

Consecutive Bullish Weeks:	6
Cycle Inception Date:	11/17/2022
Range:	64.2 – 80.6
Mean:	73.9
Bullish Weeks YTD:	21
Bearish Weeks YTD:	30
*S&P 500	-2.7%
*DJIA	-2.0%
*NASDAQ	-4.9%

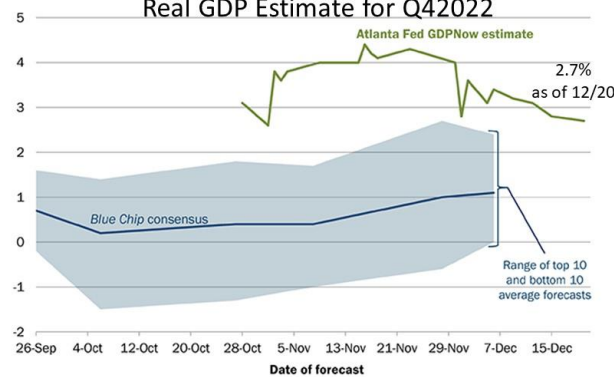
* Percentage change during current cycle



Leading Economic Index % Change Monthly November 2021 – November 2022



Atlanta Fed GDPNow Forecast Real GDP Estimate for Q4 2022



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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