

*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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January 6, 2023

### Third Worst Year Since 1950

The 60% equity/40% bond portfolio (60/40) was down 16% in 2022. Since 1950, the only two worse years were 1974 (-17%) and 2008 (-20%).

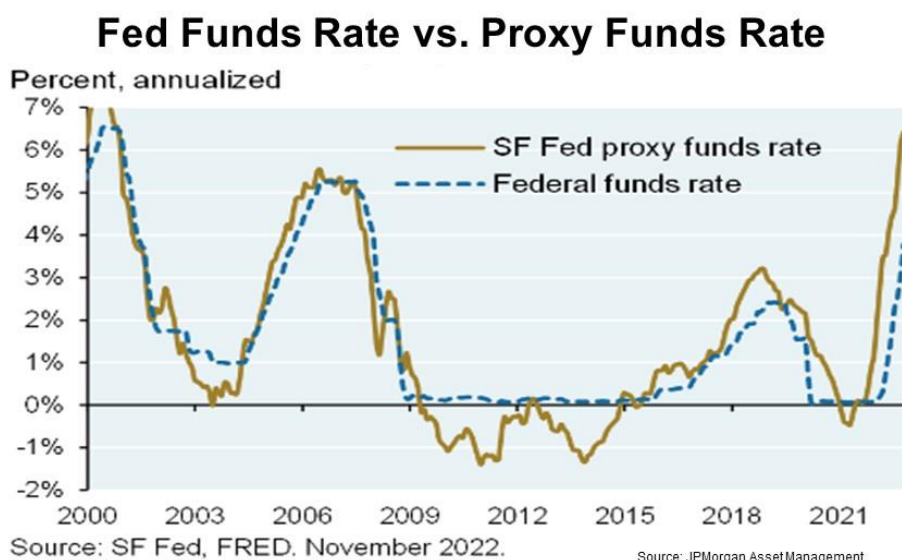
### 60/40 Annual Returns, 1950 - 2022



What is especially unusual is that the 60/40 portfolio was down 16% in a year when the National Bureau of Economic Research (NBER) has not declared a recession and when corporate earnings grew. The Federal Reserve is predicting that 2022 real (inflation adjusted) GDP expanded by 1.9% for the year.

Rapidly rising interest rates to combat the highest inflation we have experienced since 1981 has caused P/E (stock price multiple) compression and made low-interest paying bonds worth much less. Neither stocks nor bonds provided asset value protection in 2022.

The Federal Reserve has communicated its Fed Funds policy well. They have made clear that they are planning to take the Fed Funds rate to about 5% from about 4.5% today. What is less clear is the impact the Fed is making by shrinking its balance sheet. JPMorgan calculates that if we add the shrinking balance sheet effect to the Fed Funds rate, the current “proxy” rate is closer to 6.5%.



This is very restrictive monetary policy that is expected to push the economy into recession and cause corporate earnings estimates to be revised lower. It appears the majority of market strategists believe the economy is headed for a recession and the S&P 500 will trade lower in the first half of 2023 before recovering in the second half.

Delta’s two leading macroeconomic signals for recession – the 6-month moving average of the Leading Economic Index (LEI) and the inversion of the 2yr/10yr treasury yield curve – say we are headed for recession. Risk in the stock market is elevated. In Delta strategies that are driven by macroeconomic signals and are tactical, we are becoming more defensive.

For longer-term investors, there are reasons to remain positive. First, as always, this too shall pass. Second, consumer and market sentiment are near post-WW2 lows. It appears we are heading for the most highly predicted recession ever. Historically, market performance after sentiment lows is double-digit positive. Third, we just experienced an extraordinarily negative year. In most cases, the following year after a deeply negative experience is a substantially positive experience. As we have seen from the past three years, the stock market rarely follows an obvious path.

## 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 more important—that you don’t catch cold or that people don’t laugh at you?”*

## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK’S NUMBER IS

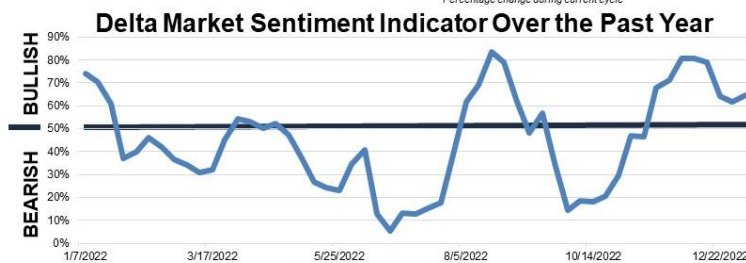
**64.6**

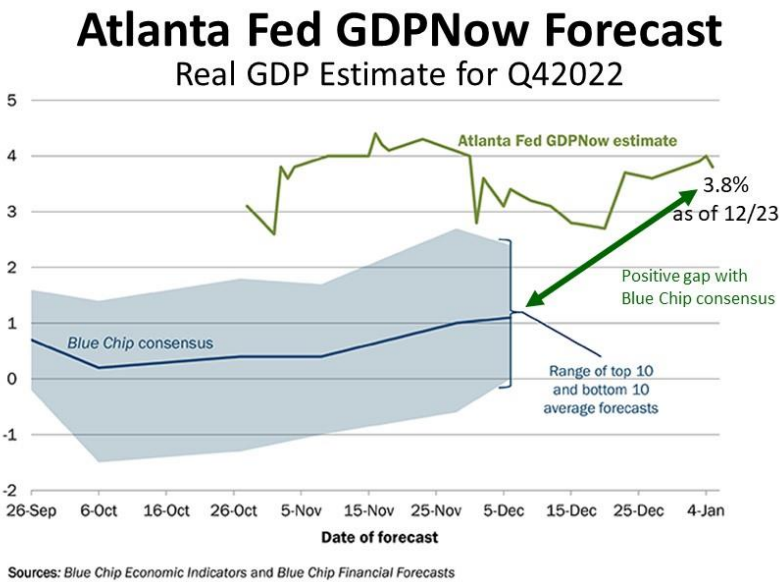
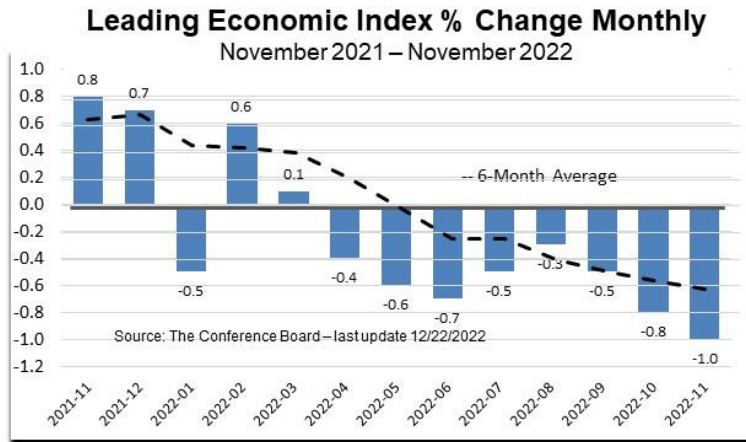
Our technical indicator went from  
61.6 to 64.6 this week

### INDICATOR STATISTICS

Consecutive Bullish Weeks:	8
Cycle Inception Date:	11/17/2022
Range:	61.6 – 80.6
Mean:	71.2
Bullish Weeks YTD:	1
Bearish Weeks YTD:	0
*S&P 500	-2.6%
*DJIA	-1.8%
*NASDAQ	-6.0%

\* Percentage change during current cycle





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