

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.

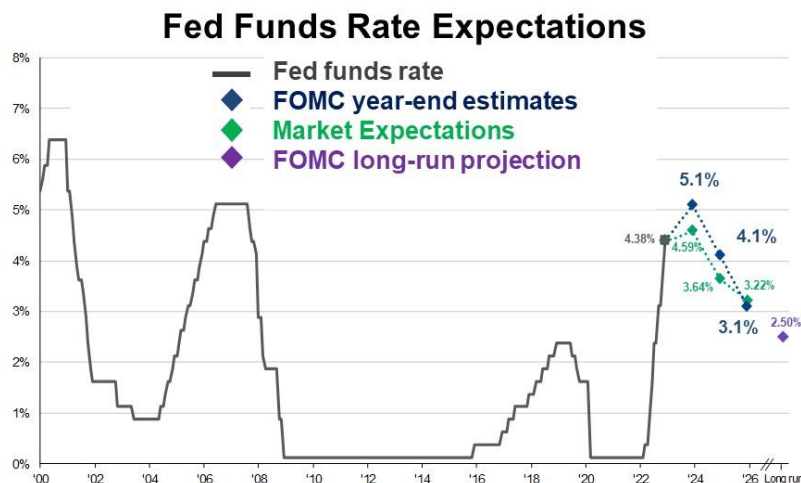
Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

January 13, 2023

Inflation and Earnings

The primary drivers of the stock market currently are inflation and earnings. If inflation is persistently high, the Fed will persistently keep interest rates high. If interest rates stay high, the economy should slow and earnings should decline. This is the consensus negative case.

Year-to-date, market participants are signaling the Fed will not raise rates as high as they say they will and that earnings may not be as bad as many expect. The chart below shows the Fed peak rate expectation of 5.1% versus the market's expectation of 4.59%. The S&P 500 has rallied by over 3% in the first weeks of the year which reinforces the viewpoint of lower rates and better earnings.



When the December Consumer Price Index (CPI) was released this week, the 10-year treasury declined to about 3.4% (ended 2022 at 3.9%). This was the case even with the CPI report showing continued high services inflation of 7.5% year-over-year versus

7.2% in November. The significant disparity between short treasuries rates (e.g., 6-month rate of 4.7%) and the long rate (e.g., 10-year rate at 3.4%) suggests short-term rates are unlikely to rise much further.

In the wake of the CPI report, the 30-day Fed Funds futures pricing data says the Fed will raise the Fed Funds rate in February by 0.25% with a 93.2% probability. The probability that the Fed raises the rate by 0.5% in February has fallen from 51% a month ago to 6.8% today.

A less restrictive Fed should be a positive for earnings. FactSet shows the current consensus S&P 500 earnings estimate for 2023 as about \$230. Although the FactSet consensus is \$230, many leading investment banks are forecasting S&P 500 earnings at \$200 or potentially lower. We started earnings season today. With the Atlanta Federal Reserve Bank GDPNow model forecasting 4.1% GDP growth in the fourth quarter of 2022 (up from 3.8% on January 5; consensus is at ~1%), there is a reasonable chance that some of the leading investment banks have become too negative on the earnings outlook.

2023 is all about inflation and earnings. Expectations are low. A mild recession or no recession at all would be considered an upside surprise. In the next couple of weeks as we move through earnings season, we will know much more about the earnings outlook and the potential for the market to trend higher.

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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

75.2

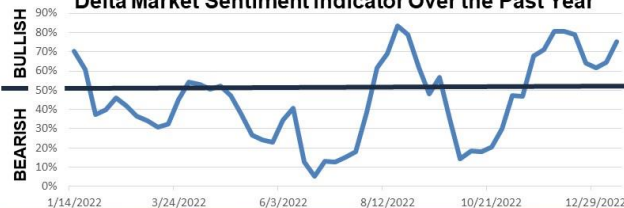
Our technical indicator climbed from 64.6 to 75.2 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	9
Cycle Inception Date:	11/17/2022
Range:	61.6 – 80.6
Mean:	71.6
Bullish Weeks YTD:	1
Bearish Weeks YTD:	0
*S&P 500	1.4%
*DJIA	1.3%
*NASDAQ	-0.8%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



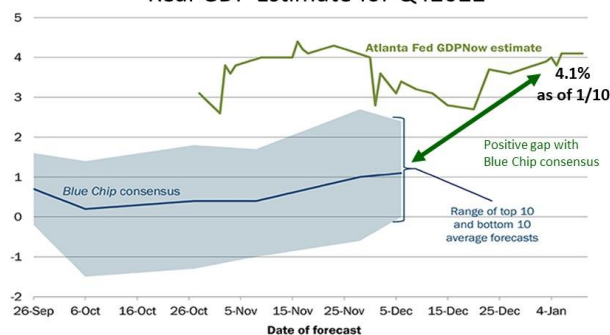
Leading Economic Index % Change Monthly

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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