

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 20, 2023

Rainy Shifts to Cloudy

Since 1928, December has been the third-best month of the year on average. The S&P 500 has positive performance 70% of the time with an average return of 1.7%. In December 2022, the S&P 500 declined by about 6%. Concerns of higher rates, slowing economy and declining earnings weighed on the market.

At the start of 2023, the S&P 500 has lifted somewhat. In some sense, rainy conditions have shifted to a slightly more positive cloudy (rather than rainy) outlook.

One positive change is the China pivot away from Covid lockdowns. China is also showing more interest in being “friendly” to western economies for the first time since the Russian invasion of Ukraine. This week, Treasury Secretary Janet Yellen met with the Chinese Vice Premier to talk about macroeconomic and financial initiatives.

This pivot is being reflected in commodity stocks with exposure to the Chinese economy. Commodity producer Freeport-McMoRan (FCX) is up 15% year-to-date presumably on China re-opening. The other encouraging message in the FCX appreciation is global recession risk may be diminishing as commodity producers tend to perform poorly in advance of recessions.

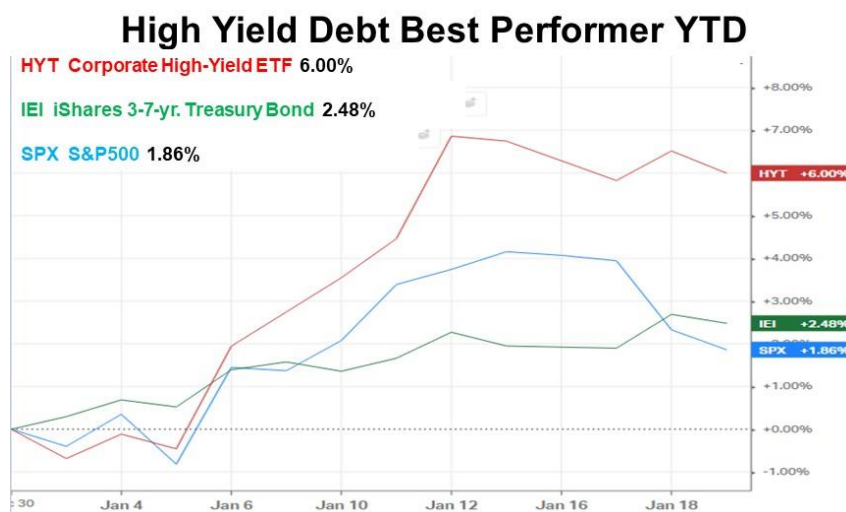
Freeport-McMoRan (FCX) China Lift



Other positives emerging from data releases in the past week include:

- the housing market may be finding a bottom with the “starts” decline less than expected,
- continued strength in the labor market with jobless claims lower than expected,
- inflation moderating -- better-than-expected CPI report,
- February Fed rate hike expected to be 0.25% rather than 0.5%,
- credit spreads continue to contract and corporate debt issuance is robust, and
- the 10-year treasury rate touched 3.3% this week and is currently at 3.4%. This is well below the six-month treasury rate of 4.8% suggesting rate hikes are coming to an end.

Money flows reveal considerable information about investor sentiment and conviction. Something odd is happening as we head towards the most predicted recession in history. Junk debt (HYT, high-yield corporate credit) is outperforming 3-7 year U.S. treasuries (IEI). Low credit quality companies tend to default at a higher rate during a recession. When the economy is expected to weaken, fund flows normally move in the direction of safety (U.S. treasuries) and away from risk (junk debt and equity).

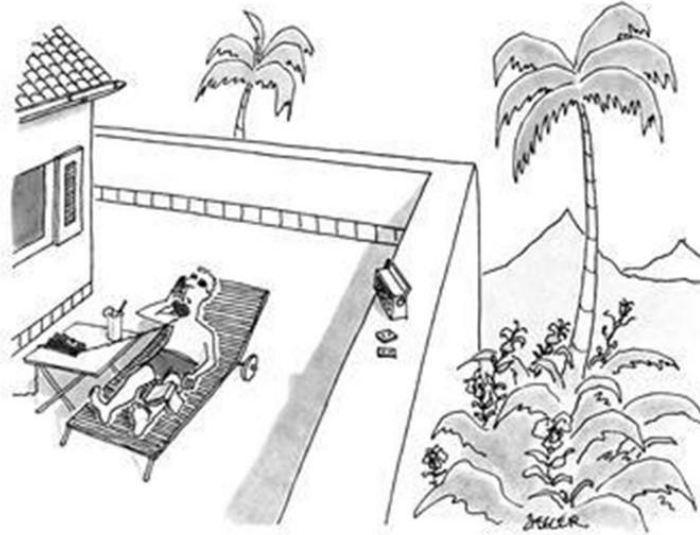


If we are heading into a recession and interest rates are expected to rise significantly further, high-yield debt would appear to be a very speculative investment.

A couple of weeks of encouraging price action should not be over-extrapolated. Earnings season has just begun and the results thus far are mixed. For example, Goldman Sachs missed earnings and declined 7% on their report (ytd +1.7%) while Morgan Stanley nearly met estimates and is showing relative strength (ytd +13.6%). By this time next week, the forecast should become more certain as we will begin to see the bulk of the corporate earnings releases.

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.



"Hey, what can I say? It's not Baltimore, but then what is?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

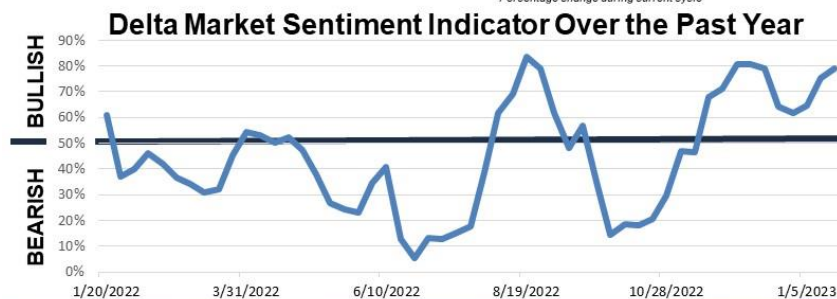
79.2

Our technical indicator climbed from 75.2 to 79.2 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	10
Cycle Inception Date:	11/17/2022
Range:	61.6 – 80.6
Mean:	72.4
Bullish Weeks YTD:	3
Bearish Weeks YTD:	0
*S&P 500	-0.4%
*DJIA	-1.4%
*NASDAQ	-1.3%

* Percentage change during current cycle



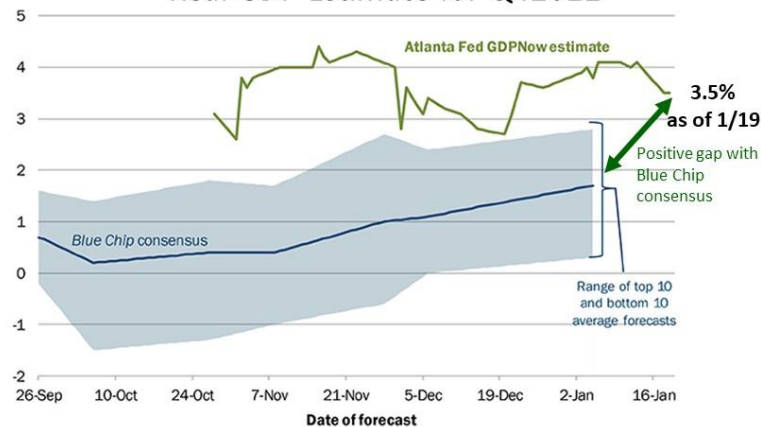
Leading Economic Index % Change Monthly

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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