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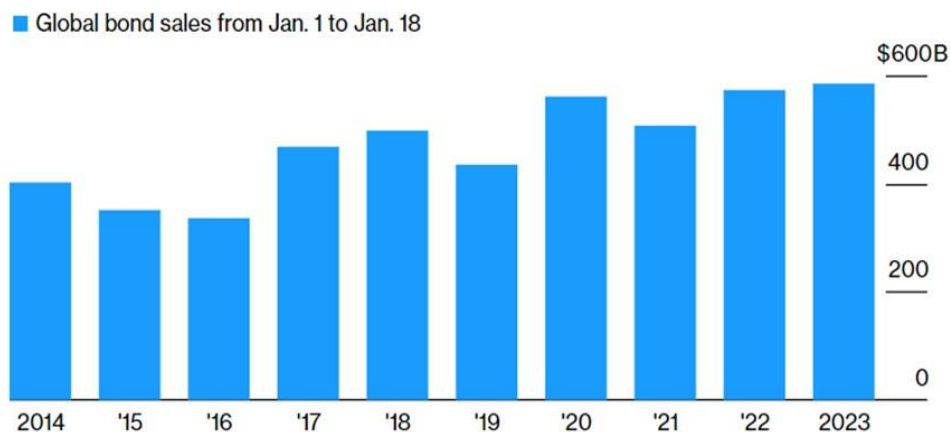
January 27, 2023

## **Resilient Consumers Are a Recession Buffer**

U.S. industrial stocks and European equities are roughly flat over the past twelve months. The S&P 500 index is up by about 15% from the October 2022 lows. Although the Leading Economic Index (LEI), inverted yield curve and deteriorating ISM data signal impending recession, equities seem to be moving in the opposite direction. Cyclical stock sectors such as materials, energy, financials, industrials, homebuilders, semiconductors, airlines, transports and small caps are all above their 200-day moving averages. Put option buying on the S&P 500 as measured by the CBOE Volatility Index (VIX, “fear index”) has declined from about 34 in October to below 20 today.

The bond market is also not running scared of a potential recession in 2023. Year-to-date through January 18, companies and governments have issued \$600 billion worth of debt. This is the fastest global bond issuance at the start of a year for the past decade.

## **Global Bond Sales – Record Start**



Source: Bloomberg

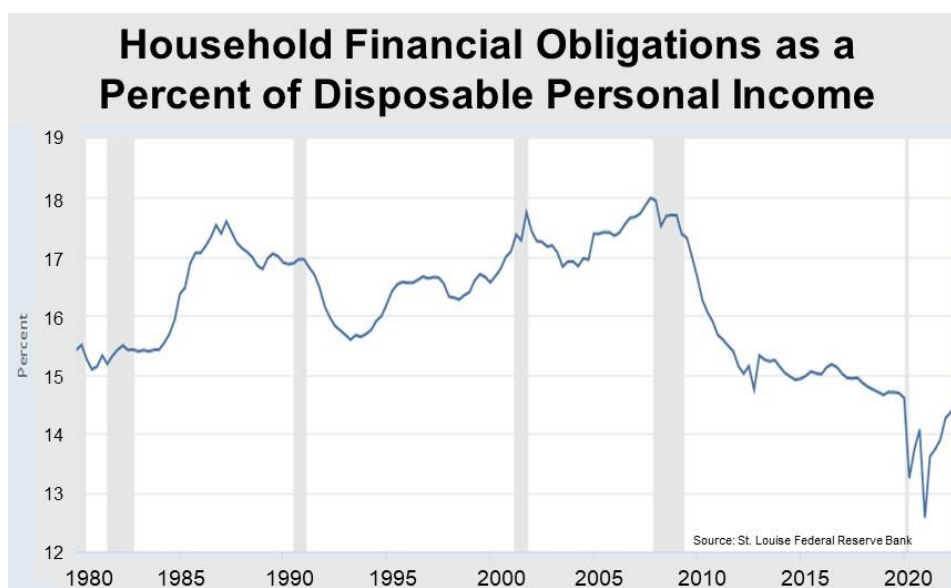
Note: Data are for bonds across multiple currencies

Money raised in the corporate bond market usually benefits equity holders via stock buybacks, dividend increases, M&A and investment in productive capacity.

The double-digit declines in the stock and bond markets last year felt and looked like a recessionary environment. The 80%+ decline in innovative, emerging company stocks from high to low as measured by the ARK Innovation ETF (ARKK) is highly reminiscent of other financial bubble bursts. The strength of stocks and bonds year-to-date and from the October lows is beginning to feel and look like a cyclical recovery. After two negative quarters of GDP growth in the first half of 2022, the last two quarters of the year delivered better than expected GDP growth. Last October, the consensus expectation for fourth quarter GDP growth was 0.5%. This week, the advance Q4 GDP report was up 2.9%.

It is possible that the Covid shut-down, 42% increase in the money supply and huge increase in fiscal spending distorted the macro-economic environment sufficiently to make fundamental recession signals miss on timing.

In any event, the financial strength of U.S. consumers may be one reason the market appears to be discounting the risk of recession so far this year. U.S. consumers are better off than they were pre-Covid and materially better off than at any time over the past forty years. Below is a chart showing household financial obligations as a percentage of disposable personal income from the St. Louis Federal Reserve bank. The calculations include rent payments, auto lease payments, homeowners insurance and property tax payments which is a broader measure than what is used by the Household Debt Service Ratio.



Credit card charge-offs and delinquencies are below pre-Covid 2019 levels and well below levels experienced during the Great Financial Crisis (GFC).

BANK-IS SUED CREDIT CARD DATA					
DATE	YIELD	CHARGE-OFFS	30-59 DELINQ	60-89 DELINQ	90+ DELINQ
<b>Current Levels</b>					
Jan-23	23.98%	1.16%	0.32%	0.23%	0.45%
Dec-22	24.00%	1.16%	0.32%	0.22%	0.42%
Nov-22	23.33%	1.14%	0.31%	0.21%	0.42%
<b>Pre-COVID</b>					
Dec-19	20.18%	2.30%	0.44%	0.35%	0.78%
Nov-19	20.07%	2.17%	0.46%	0.34%	0.76%
Oct-19	20.47%	2.31%	0.44%	0.32%	0.73%
<b>GFC Era</b>					
Apr-10	23.14%	10.33%	1.43%	1.12%	3.03%
Mar-10	22.23%	10.43%	1.38%	1.16%	3.15%
Sep-09	19.82%	10.63%	1.56%	1.08%	2.87%
Aug-09	19.48%	9.83%	1.35%	1.15%	2.96%
Dec-08	17.16%	6.60%	1.55%	1.14%	2.45%
Nov-08	17.90%	6.45%	1.49%	1.09%	2.35%
Nov-07	20.48%	4.55%	1.35%	0.94%	1.98%
Oct-07	19.77%	4.21%	1.33%	0.93%	1.90%

Source: JPMorgan

Consumer financial health and the propensity to spend can change quickly. We are seeing a slowdown in retail sales and company earnings to-date have been mixed. The consumer discretionary sector ETF (XLY) is trading below its 200-day moving average. But given the underlying financial strength of consumers, the economy and stock market may weather whatever financial turbulence is ahead of us with better-than-expected resilience.

### 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).



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

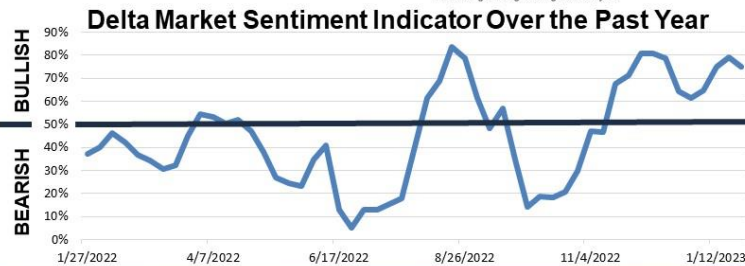
**74.9**

Our technical indicator declined from 79.2 to 74.9 this week

### INDICATOR STATISTICS

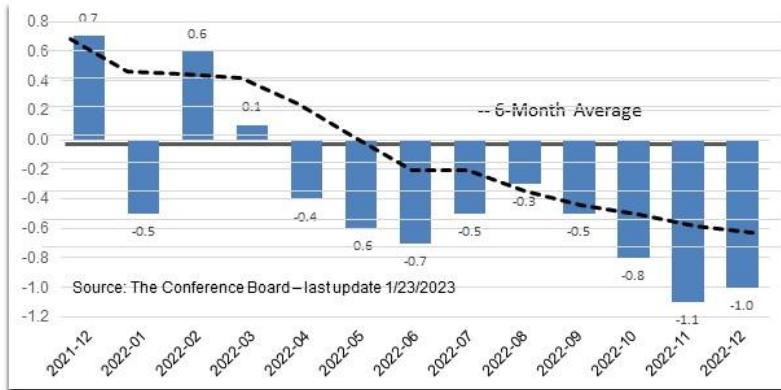
Consecutive Bullish Weeks:	11
Cycle Inception Date:	11/17/2022
Range:	61.6 – 80.6
Mean:	72.6
Bullish Weeks YTD:	4
Bearish Weeks YTD:	0
*S&P 500	3.1%
*DJIA	1.1%
*NASDAQ	3.2%

\* Percentage change during current cycle



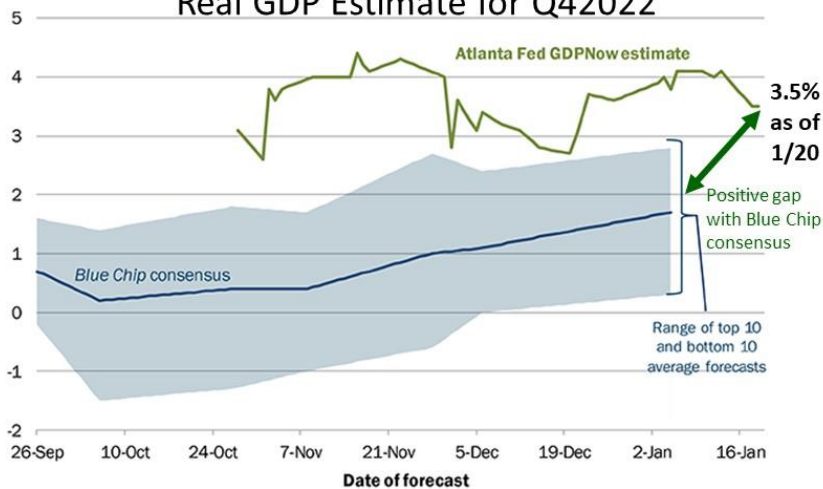
## Leading Economic Index % Change Monthly

December 2021 – December 2022



## Atlanta Fed GDPNow Forecast

Real GDP Estimate for Q42022



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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