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Delta manages portfolios at TD Ameritrade and Schwab.

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February 3, 2023

Hard to Tackle Economy

Despite the Fed's best efforts to bring the economy down with higher interest rates in an effort to control inflation, the economy seems harder to tackle than NFL running back Christian McCaffrey. The latest GDP growth reading for Q4 2022 was up 2.9%. The economy's sense of balance in a challenging environment comes partly from:

- 0.72% -- total loans and leases that are past due at large U.S. banks versus long-term average of 1.9%
- 3% -- percent of U.S. high yield debt maturing in 2023. Companies generally do not default on debt because they cannot pay interest and principal on an ongoing basis. They default because they cannot roll their debt over when it comes due.
- 5% -- percent of U.S. households that have adjustable-rate mortgages versus 25% in 2006. Higher rates are not impacting home loan payments on outstanding loans.
- 5.3 million – number of excess jobs relative to number of available workers. The level of unemployment may stay low for longer.
- 83,000 – number of jobs cut so far in 2023 by 256 technology companies. High revenue technology companies are shifting from a growth to a profit focus.

From late 2008 to early 2022, the Fed Funds rate has been near zero with a brief blip higher from 2016-2019. When the cost of capital is low, companies spend for growth. Low profits are rewarded with high P/E multiples and growth equities are the best investment opportunity in a near-zero income world. When money is expensive (high interest rates), companies focus on profits. P/E multiples contract and investors are offered competitive returns in the fixed income market. If CEOs want stock advancement, they have to deliver real cash profits in a high interest rate environment.

Meta Platforms (ticker META, was Facebook) is an example of this. The company reported much better than expected profitability on revenues that declined by 4.5% year-over-year. The company lowered 2023 total expense guidance to \$89-\$95 billion from \$94-\$100 billion due to slower anticipated growth in payroll expenses and consolidating office facilities. The company lowered capital expenditures guidance to a range of \$30-33 billion from prior estimate of \$34-37 billion. Mark Zuckerberg, Meta founder and CEO: "Our management theme for 2023 is the 'Year of Efficiency' and we're focused on becoming a stronger and more nimble organization." The stock jumped 28%+ higher on the report.

Other notable technology companies that announced job cuts/cost reductions and had their stocks trade higher on the announcement include Alphabet/Google, Amazon, Microsoft and Salesforce. Year-to-date, the NASDAQ 100 is up 16%.

Fed rate increases are so 2022. The Fed raised the Fed funds rate by 0.25% this week and the 10-year treasury decreased from about 3.5% to 3.3%. Although the Fed is talking about two more rate hikes of 0.25% each, the bond market is signaling the Fed rate hike cycle is nearing an end. In 2023, Fed rate hikes may not be a primary driver of stock market outcomes.

2023 appears to be driven more by the potential for recession and where earnings will end up. Some market analysts say that the strength of the market year-to-date is being driven by stock buybacks, FOMO (Fear Of Missing Out) and short covering. It is possible that the fundamentals of the market are actually better than expected. The technology sector represents roughly 26% of the S&P 500 Index. Higher profitability in this sector could have an outsized impact on index earnings and where the markets trade in 2023.

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

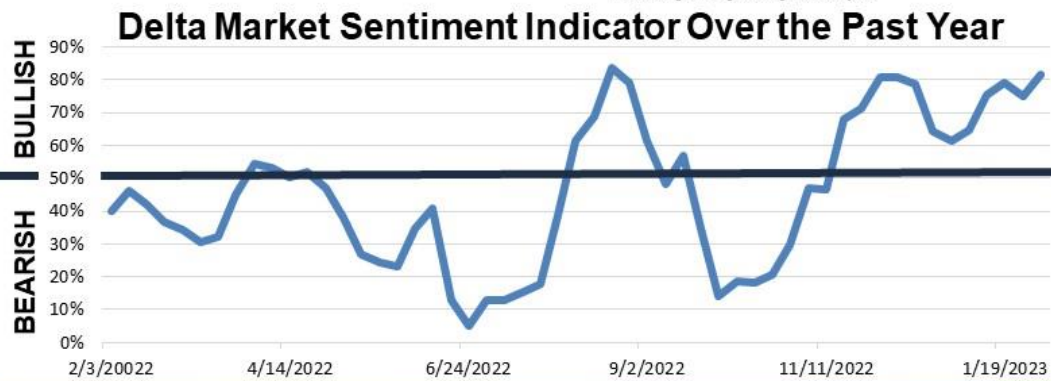
81.4

Our technical indicator increased from 74.9 to 81.4 this week

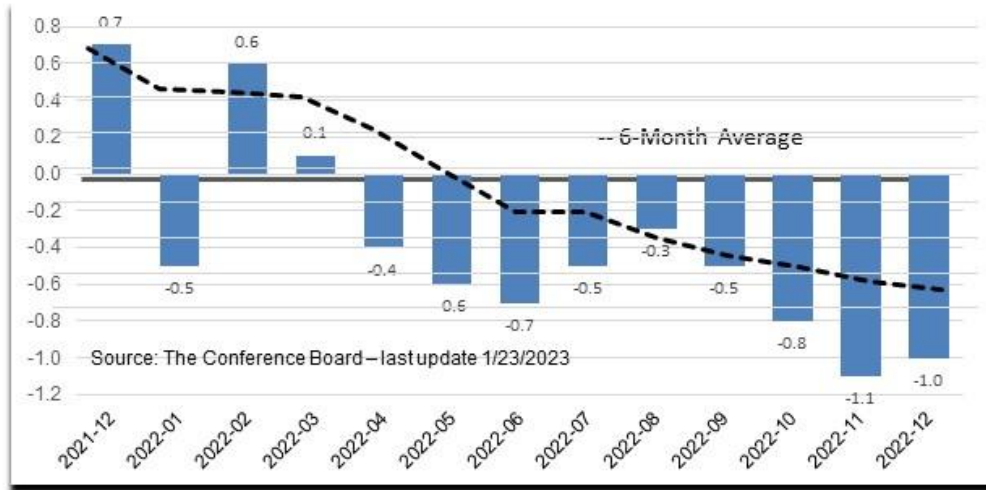
INDICATOR STATISTICS

Consecutive Bullish Weeks:	12
Cycle Inception Date:	11/17/2022
Range:	61.6 – 81.4
Mean:	73.4
Bullish Weeks YTD:	5
Bearish Weeks YTD:	0
*S&P 500	5.8%
*DJIA	0.7%
*NASDAQ	9.4%

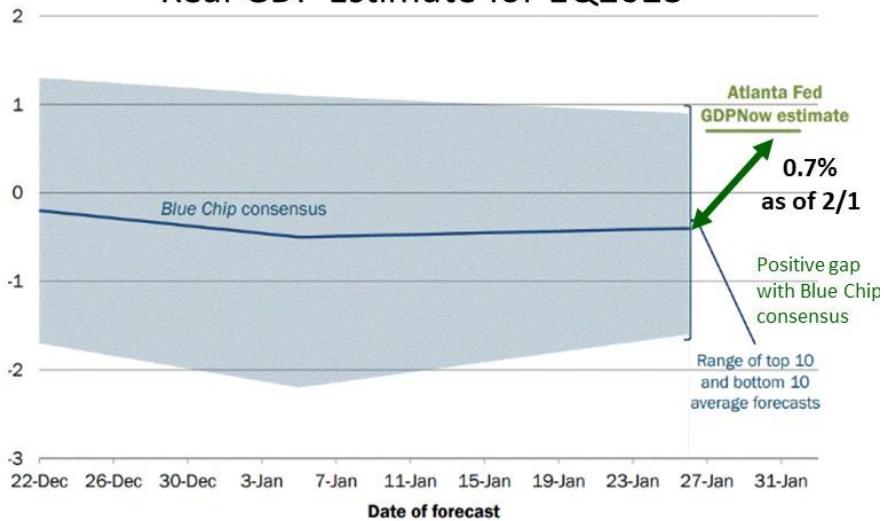
* Percentage change during current cycle



Leading Economic Index % Change Monthly December 2021 – December 2022



Atlanta Fed GDPNow Forecast Real GDP Estimate for 1Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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