

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.

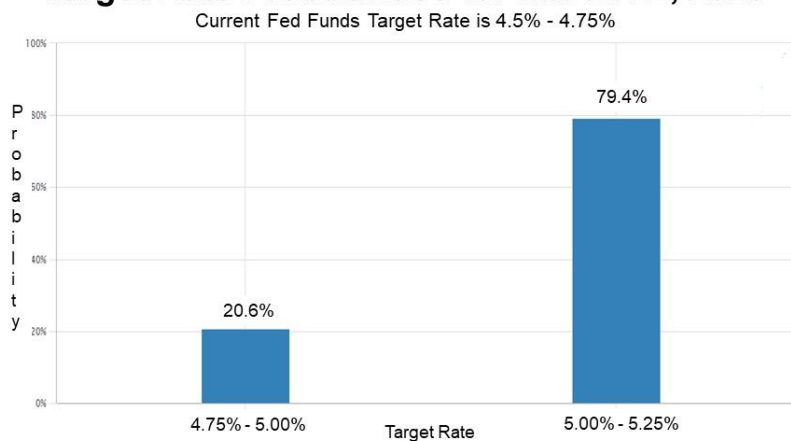
Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

March 10, 2023

The Fed Ceiling

“If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes.” Fed Chairman Powell, March 7, 2023. On this statement and with the accelerating strength of the economy, rate hike expectations climbed to a 79% chance of a 0.5% hike at the March 22 Fed meeting (up from a 31% chance on Monday) and a terminal Fed Funds rate of 5.64%.

Target Rate Probabilities for March 22, 2023



When the economy shows strength and the stock market responds favorably, the Federal Reserve places a ceiling on further stock appreciation with strong rate talk and action. If the economy shows weakness, we may be on the path towards eventual recession. Since last September, the S&P 500 seems to have found a durable ceiling at about the 4150 level.

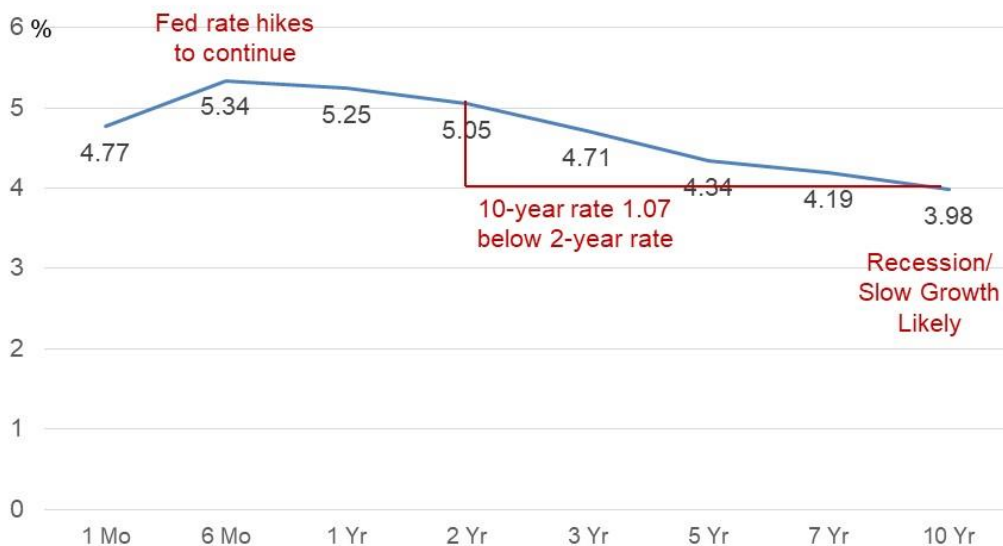
There are a couple of pathways out of this box. In a perfect world, the economy would expand and inflation would subside. With inflation falling towards the 2% Fed target level and continued growth, stocks would most likely break up through the ceiling and find new highs. But, as the Fed continues to raise rates when the economic data is

robust in an effort to guide inflation lower, this perfect-world scenario (some have been calling this the “no-landing” scenario versus the soft or hard landing scenario) becomes less probable.

In the less than perfect-world scenario, higher rates eventually cause the economy to contract. In a contracting world, earnings decline and stock valuations depreciate to reflect the diminished earnings. The inverted yield curve is signaling that this less-than-perfect outcome is becoming more probable.

The differential between the 2-year and 10-year treasury is the highest it has been since 1981.

Treasury Yield Curve Speaks – March 8, 2023



The inverted yield curve suggests the Fed will eventually be successful in lowering inflation but at the cost of slower growth and a high probability of recession.

With the S&P 500 near the 4150 ceiling, the risk/reward of buying equities does not appear attractive. The Fed ceiling seems to be placing an upside cap of about 3-4% from current levels. Conversely, in a recession scenario, the S&P 500 could trade back to its 52-week low of 3492 (~13% downside) or lower. The good news is there are many high yielding, low risk fixed-income opportunities and an increasing number of hedged/high-yield equity opportunities that are attractive today.

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.



“While you were deciding, we raised our prices.”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

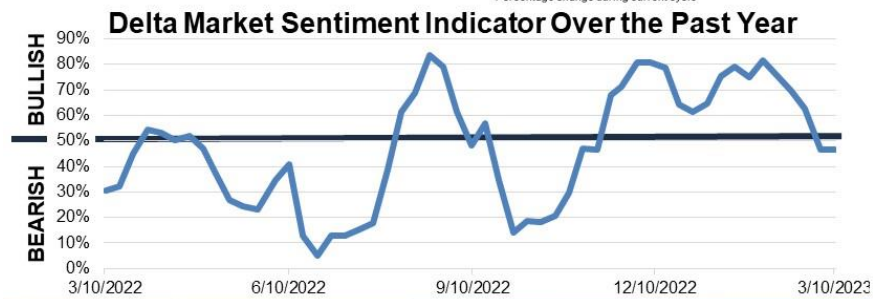
46.7

Our technical indicator is unchanged at 46.7 this week

INDICATOR STATISTICS

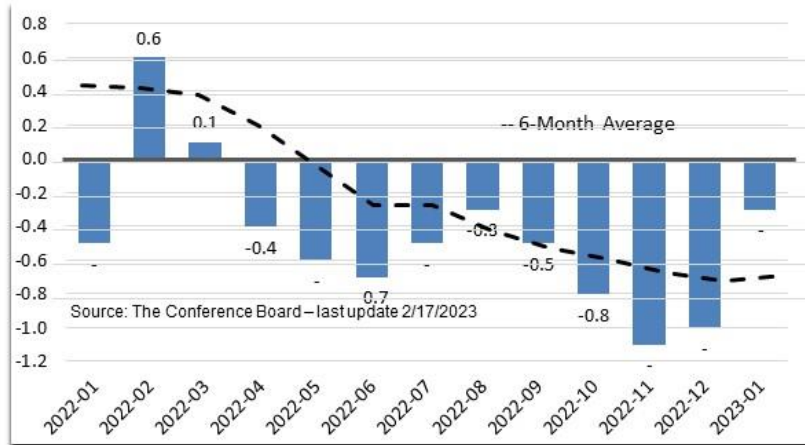
Consecutive Bearish Weeks:	2
Cycle Inception Date:	3/2/2023
Range:	46.7
Mean:	46.7
Bullish Weeks YTD:	8
Bearish Weeks YTD:	2
*S&P 500	0.9%
*DJIA	-0.2%
*NASDAQ	1.8%

* Percentage change during current cycle



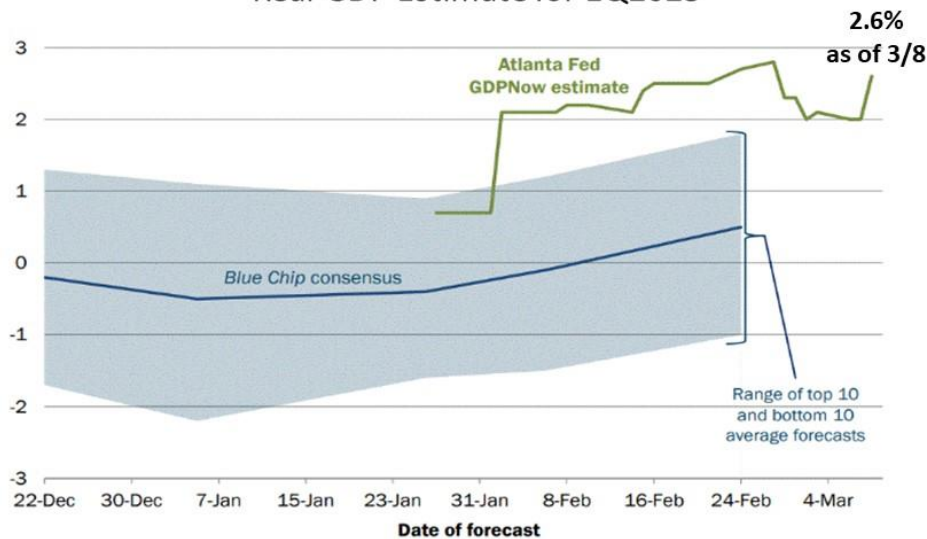
Leading Economic Index % Change Monthly

January 2022 – January 2023



Atlanta Fed GDPNow Forecast

Real GDP Estimate for 1Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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