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Delta manages portfolios at TD Ameritrade and Schwab.

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

March 17, 2023

Oh Snap!

Fast rising interest rates and deposit outflows caused Silvergate Bank, Silicon Valley Bank (SIVB) and Signature Bank (SBNY) to fail in the past week. At some level, all banks are vulnerable to negative mark-to-market changes to their bond portfolios in a rapidly rising rate environment. Credit Suisse (CS, large Swiss bank) reported it has “material weaknesses” in its financial reporting process and is pre-emptively borrowing 50 billion CHF from the Swiss National Bank to stabilize its liquidity position. First Republic Bank (FRC) is down over 80% since the middle of last week and is looking to be acquired.

Time to dust-off the Great Financial Crisis (GFC, 2008/09) terms “counterparty risk” and “systemic risk.” It turns out that shutting the economy down for a pandemic, increasing the money supply by 42% and holding interest rates near zero for a long-time can stimulate record inflation and record Fed rate hikes. This sequence of events is causing parts of the financial system to break. Oh snap!

The banking sector failures in the past week will likely cause the Federal Reserve to increase the Fed Funds rate no more than by 0.25% this month because: 1) systemic risk to the financial system is more important than the pace of inflation reduction and 2) the dislocations in the banking sector are likely to cause loan issuance to slow which is disinflationary. Loan growth was already expected to slow this year to ~2-3% from 7% last year. With the recent bank failures, there will be further pullback on risk commitments until there is clarity around what will happen to funding bases, cost of funding, changes to bank regulations, as well as the broader impact on the US economy.

Small and medium-sized banks play an important role in the US economy. Banks with less than \$250B in assets account for roughly 50% of US commercial and industrial lending, 60% of residential real estate lending, 80% of commercial real estate lending, and 45% of consumer lending.

The amount of change in financial market expectations in the past week is extraordinary.

Expectations Week over Week

Expectation	Week	
	Ago	Today
March Fed Rate Hike	0.50%	0 - 0.25%
Fed Rate Cuts 2023	None	1%
Bank Failures	Not A Problem	Potential Systemic Problem
10-Year Treasury Rate	4%	3.40%
Recession	Not in 2023	Yes in 2023
Inflation	Important, too much	Less Important
Best Equity Sectors	Value	Growth

Although expectations about the investment landscape have shifted significantly, many important risk measures are not signaling that all of the shift is negative. The S&P 500 index is just below the 4000 level which is a small negative change week-over-week. The NASDAQ 100 appreciated in the past week, most likely on the reduction in interest rates and the cash stability and durable growth characteristics of large capitalization technology companies.

The CBOE Volatility Index (VIX) is trading in the low 20s which is well below the high-anxiety levels of 35 and up. The high-yield credit spread (a bond market measure of risk) has moved up to just over 5%, a risk warning threshold level, but just barely. We will be watching this indicator in the next week to see which way it turns – risk on or off.

The pace of change in the financial markets is accelerating. The most recent point of acceleration is in how fast the government stepped in to backstop all depositors and prevent bank failure contagion. For the moment, the ramifications of the investment landscape shifts of the past several days are not clear. We may have increased the probability of recession and accelerated the timing or we may have removed the Federal Reserve as a block to economic growth and higher stock prices. Hopefully the cause-and-effect relationships will become evident soon. As ever, Delta remains nimble.

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.

Happy St. Patrick's Day!



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

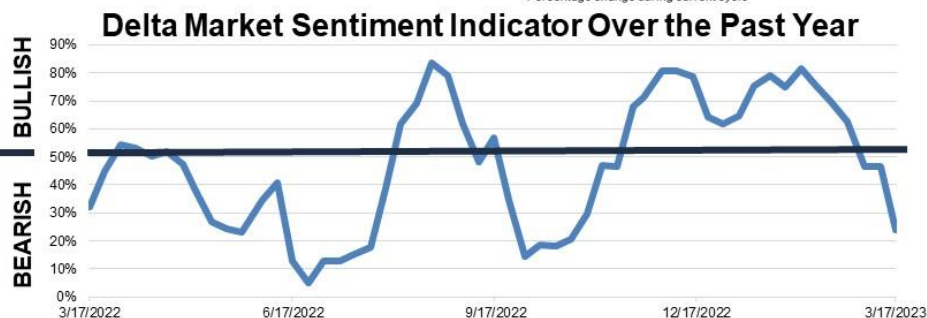
23.9

Our technical indicator declined from 46.7 to 23.9 this week

INDICATOR STATISTICS

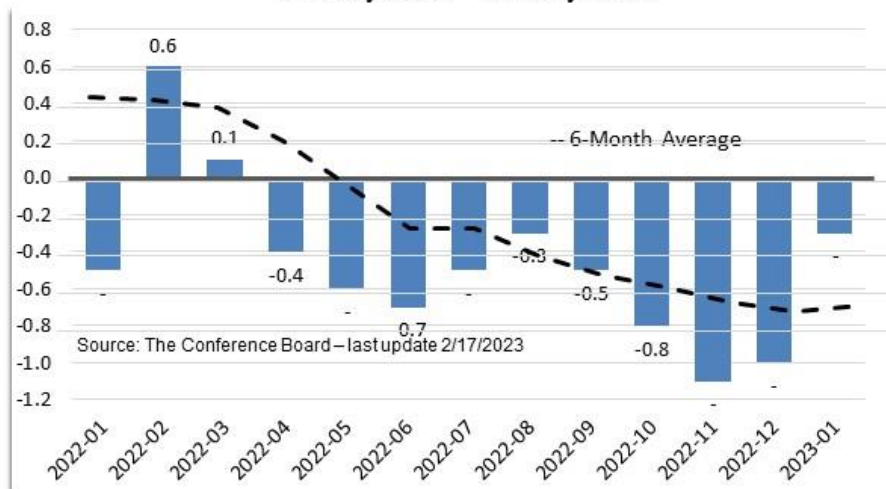
Consecutive Bearish Weeks:	3
Cycle Inception Date:	3/2/2023
Range:	23.9 - 46.7
Mean:	39.1
Bullish Weeks YTD:	8
Bearish Weeks YTD:	3
*S&P 500	-2.1%
*DJIA	-3.4%
*NASDAQ	0.3%

* Percentage change during current cycle



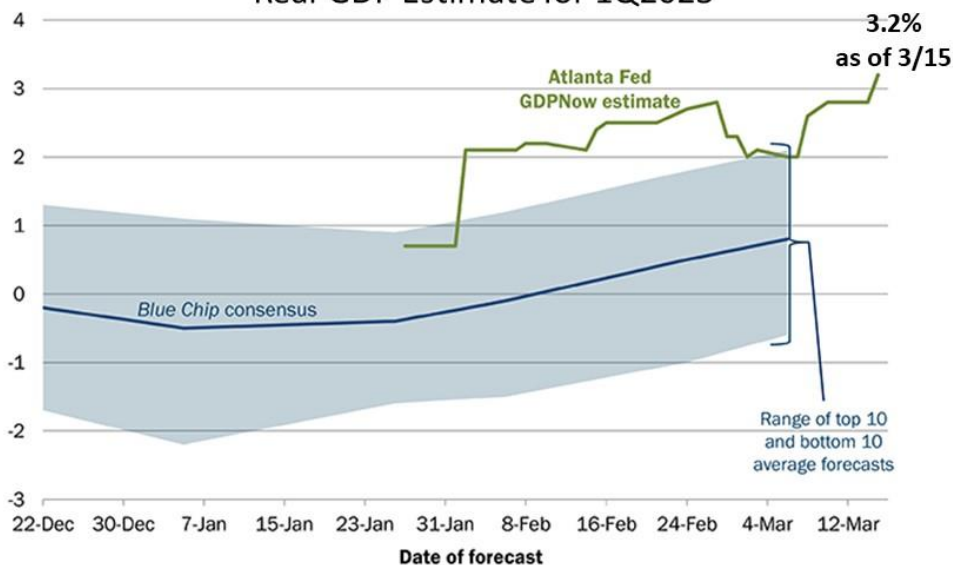
Leading Economic Index % Change Monthly

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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