

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.

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April 21, 2023

Surprise! No Recession Yet

From the Conference Board's Leading Economic Index (LEI) report released this week: "weakness among the index's components were widespread in March and have been so over the past six months. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the U.S. economy over the coming months, leading to a recession starting in mid-2023."

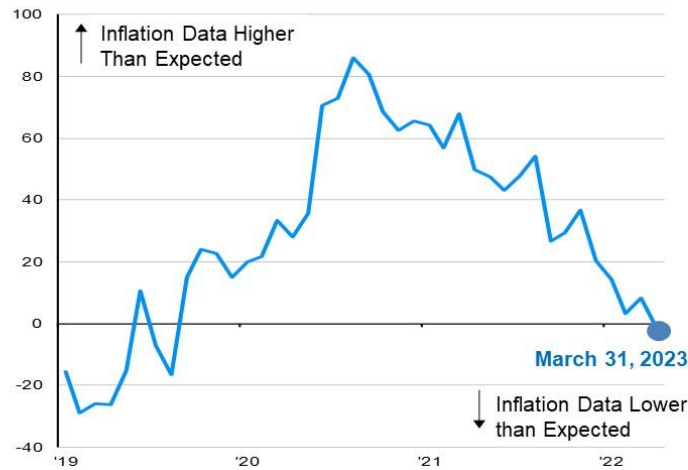
Citigroup tracks the difference between reported and expected economic results. When reported results are better than expected, economic performance generally beats market expectations. Surprise! The Citi Economic Surprise Index shows actual results have been surprising to the upside. The economy is not in a much-anticipated recession.

Citi Economic Surprise Index

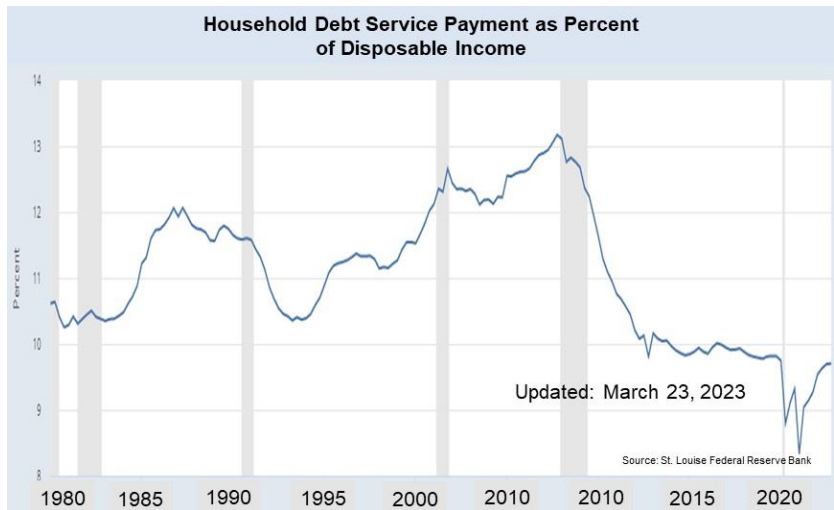
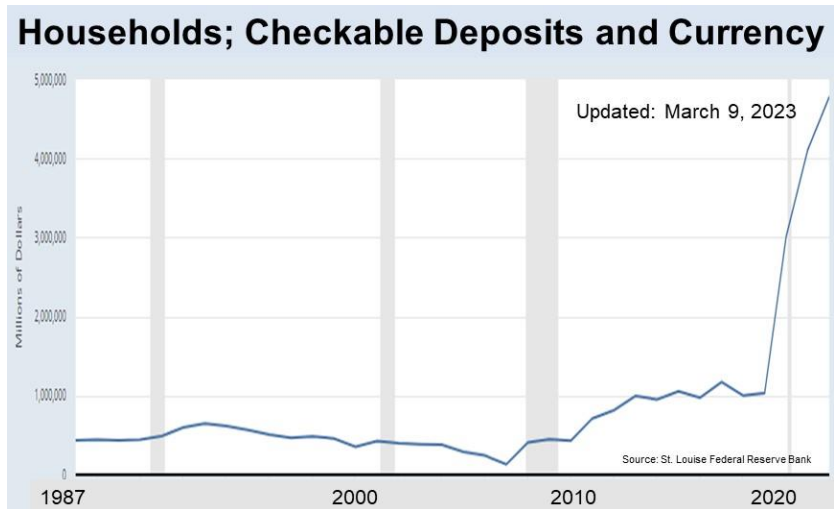


Lately, even inflation data has been surprisingly good (lower than expected).

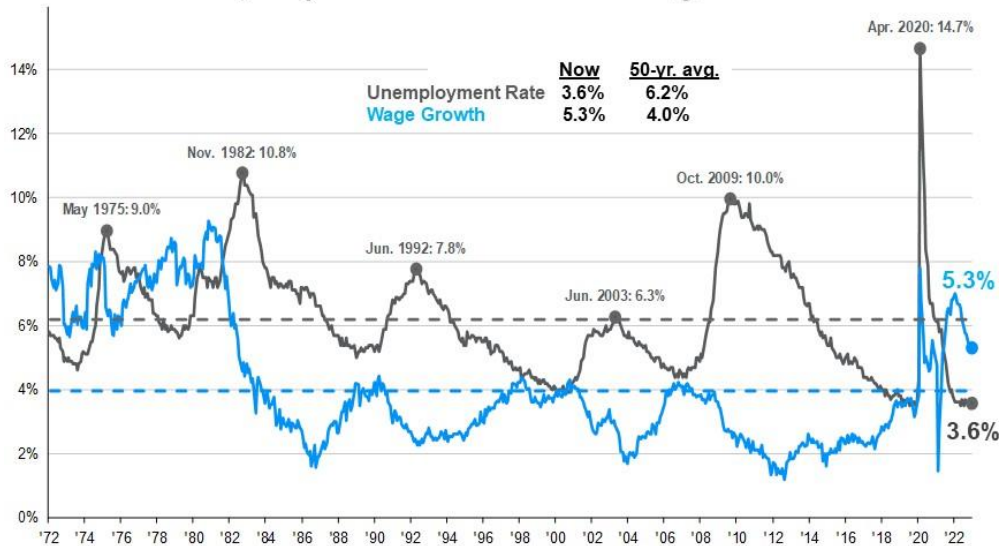
Citi Inflation Surprise Index, Monthly



Why is the economy so resilient? Roughly 70% of U.S. economic activity is driven by consumers who have lots of money saved, low debt service and are employed. Additionally, their home and stock values are in good shape.



Unemployment and Y/Y Wage Growth



Consumer confidence and spending patterns can change quickly. The University of Michigan consumer sentiment survey shows sentiment is well below average and the Association of American Independent Investors shows bearishness has been higher than the historical average all year long. Yet even with a bearish mind set, consumers are spending and the economy is expanding. From a bearish stance, the next move is a shift towards bullish.

If this keeps up, a real bull market may emerge. Many bearish investors predicted a 20-30% pullback in the stock market in the first half of the year. What if this does not occur? At some point, bearish investors may pivot.

High-yield debt acts like equity in a recession. It depreciates because credit risk (loan delinquency/default risk) rises. If a recession were on the horizon, high-yield debt would be an investment to avoid. Funds that invest in US corporate bonds saw additions of \$5.6 billion in the week ended April 5, including the largest inflow into high-yield funds in nearly six months.

Since the Covid economy shutdown in 2020, we have seen very powerful, conflicting economic and market signals. Normally, the two most reliable recession indicators are the inverted treasury yield curve and the six-month moving average of the Leading Economic Index (LEI). They have been signaling recession for almost a year. When the S&P 500 index traded to 3,500 last October, investors and economists felt it was nearly certain we would be in recession by now. From the October low, the S&P 500 is up 18% and GDP seems to be expanding.

The disconnect between normal market signals and actual economic and market performance has much to do with record levels of Covid fiscal stimulus, a 42% increase in the money supply and the steady process of main street going back to work with the Covid emergency declared over. Economic and market signals will eventually reconnect with reality once the Covid distortions wash through the system. For now, we remain focused on what is rather than what we think it should be.

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.



“We were thinking about the Himalayas this summer. On the other hand, there’s something very special about Montauk.”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

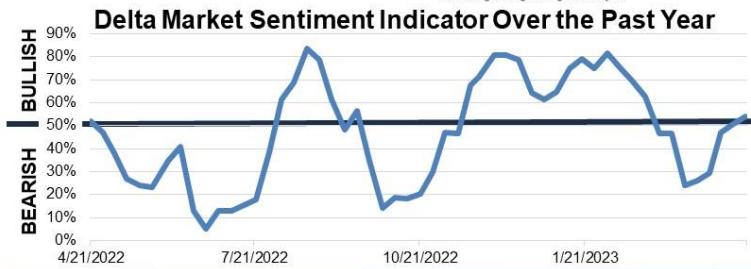
54.1

Our technical indicator increased from 50.7 to 54.1 this week

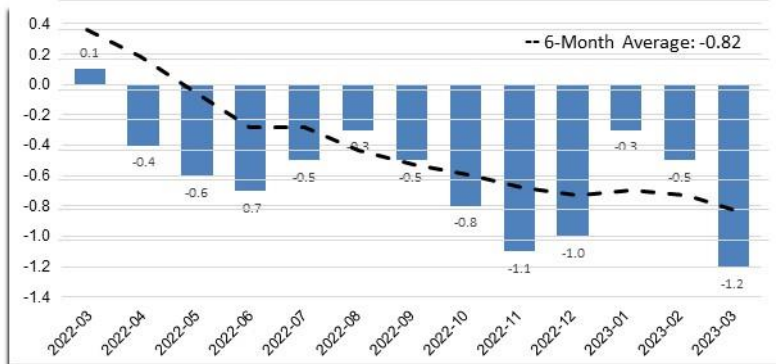
INDICATOR STATISTICS

Consecutive Bullish Weeks:	2
Cycle Inception Date:	4/13/2023
Range:	50.7 – 54.1
Mean:	52.4
Bullish Weeks YTD:	11
Bearish Weeks YTD:	5
*S&P 500	0.8%
*DJIA	0.6%
*NASDAQ	0.6%

* Percentage change during current cycle



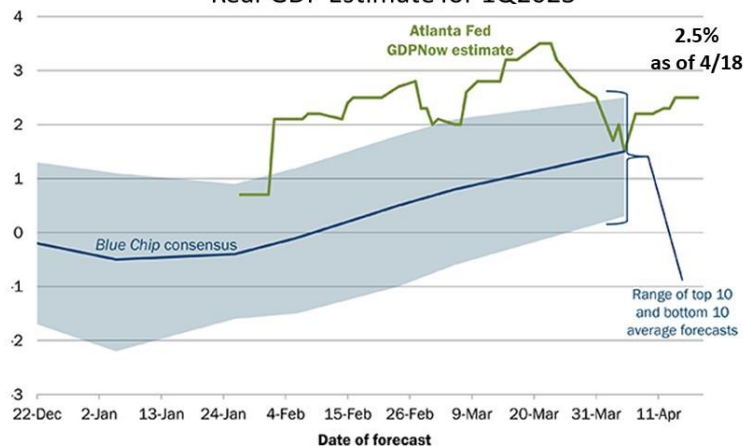
Leading Economic Index % Change Monthly March 2022 – March 2023



Source: The Conference Board – last update 4/20/2023

Atlanta Fed GDPNow Forecast

Real GDP Estimate for 1Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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