

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 28, 2023

Bad Attitude

Perception plays an important role in how investors see the world. Investor allocation to equities relative to bonds has dropped to its lowest level since the Global Financial Crisis (GFC, 2008-09) as worries about a recession take hold, according to Bank of America Corp.'s global fund manager survey. J.P. Morgan's manager survey shows 68% of managers are more likely to decrease equity exposure over the coming days/weeks. Equity investors are mostly bearish.

Investors with a bearish outlook tend to attach more importance to negative news than positive news as negative news reinforces rather than conflicts with current beliefs. So, despite positive earnings reports from bellwether companies including Microsoft, Google, Meta, PepsiCo, Coke, JP Morgan Chase, 3M, General Motors, Halliburton, Kimberly Clark, McDonald's, Raytheon, Enphase, Visa, Automatic Data, Boeing, Boston Scientific, Otis, Aflac, KLA Corporation, O'Reilly Auto, etc., two reports placed downward pressure on the market this week.

Bear Report 1: Coming into this week, First Republic Bank (FRC) stock had already depreciated by about 88%. In the wake of their earnings report on Tuesday, the stock dropped an additional 67% to an all-time, single-digit low. The First Republic fiasco knocked the regional bank sector down and renewed fears of recession caused by tighter lending standards.

Bear Report 2: UPS reported in-line earnings but lowered its full-year guidance due to macroeconomic conditions and "changes in consumer behavior." They also materially guided down Q2 Expectations. The stock lost 10% of its value on Tuesday and renewed fears of recession.

The FRC/UPS one-two punch dropped the S&P 500 by about 2% over two days. With the Delta Market Sentiment Indicator (MSI) so close to the 50% tipping point, this blow was sufficient to cause the MSI to turn from Bullish to Bearish this week.

Trend following investment programs require there be a durable trend to follow. Since December 1, 2022, the S&P 500 has been range bound in a sideways wave pattern. A choppy market environment can create whipsaw trading until a more lasting bull or bear trend is established.

5 Months of S&P 500 Price Action



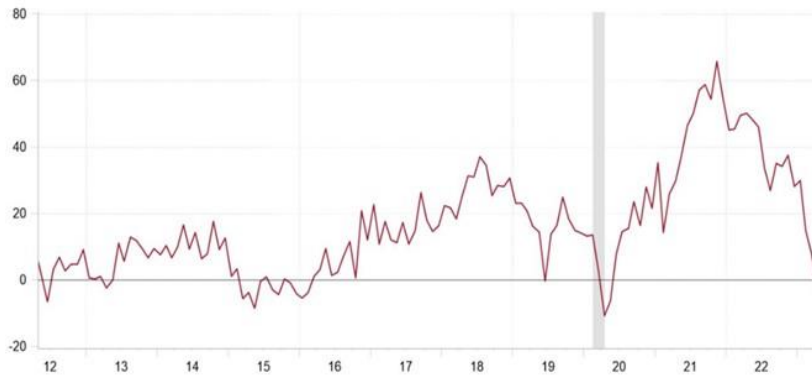
The reason why the market is moving sideways is because of high uncertainty regarding the direction of economic growth and earnings in the near to intermediate term. Pessimism is the consensus view currently. This statement, in and of itself, is bullish.

Because the bullish case is contrarian, it is more interesting. It also has the capacity to move the market more impressively. Outcomes that are not expected are more market moving than expected outcomes which have been priced in well in advance.

A bullish case can be made with respect to inflation. There are signs that inflation has been tamed. The Philly Fed Prices Received Index shows zero inflation today.

Current Prices Received Index

United States: Philly Fed Manufacturing Business Outlook
(percent balance)

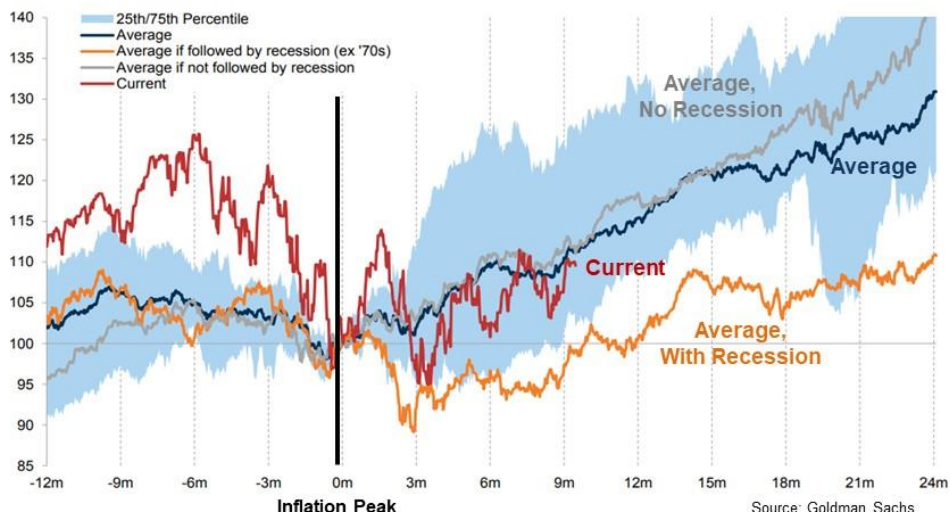


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

The chart below shows the S&P 500 Total Return Index for 24 months following the inflation peak. In all cases, the Index trends higher. It does best when the inflation peak is not followed by recession but even a recession does not eliminate all appreciation typically. The red line on the chart shows our current progression assuming inflation peaked in the middle of 2022.

S&P 500 Return After Inflation Peak

S&P 500 TR. Data since 1950. Indexed at 100 at historical inflation peaks.



With uncertainty elevated and the market advance stalled, tactical traders move back into a wait and see mode. For buy-and-hold investors, it is reassuring to see so many positive earnings reports from such a broad array of industries. It is also encouraging that the S&P 500 has appreciated over time following an inflation peak even with a prevailing headwind of bearish sentiment.

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.



"I'm sending you to someone who can afford your brand of optimism."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

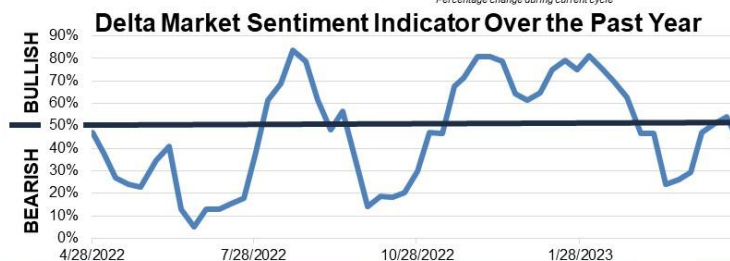
43.1

Our technical indicator decreased from 54.1 to 43.1 this week

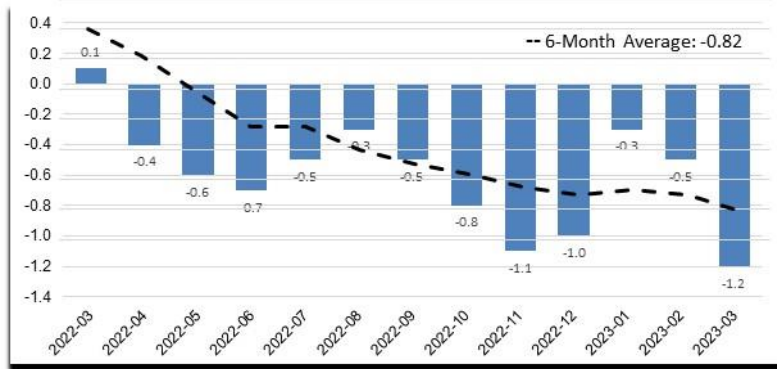
INDICATOR STATISTICS

Consecutive Bearish Weeks:	1
Cycle Inception Date:	4/27/2023
Range:	43.1
Mean:	43.1
Bullish Weeks YTD:	11
Bearish Weeks YTD:	6
*S&P 500	0.8%
*DJIA	0.6%
*NASDAQ	0.6%

* Percentage change during current cycle

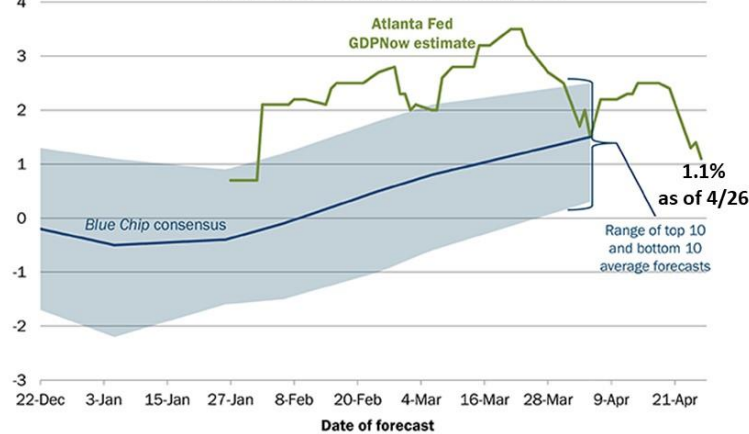


Leading Economic Index % Change Monthly March 2022 – March 2023



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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