

*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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May 5, 2023

## **Hitting a Debt Ceiling**

As an investment firm, we talk with clients and peers about the investment landscape and various risks and opportunities throughout every workday. In the past couple of weeks, our discussions have included:

- Earnings season is going better than expected with S&P 500 earnings holding up in the range of \$220-\$225 for 2023 and projected to be \$250 in 2024. When we began the year, many investment banks projected 2023 S&P 500 earnings of \$200 or less.
- Although the treasury yield curve is steeply inverted and the Leading Economic Index (LEI) is consistently negative (both reliable recession indicators), the economy does not seem to be in a recession. Fed Chairman Powell said yesterday he “does not foresee a recession, only modest growth.”
- The Fed raised the Fed Funds rate by 0.25% and removed further rate hike language in their statement. They continued to talk about being data dependent. This was expected although there has been some conversation that investors wanted to hear a hint of rate reductions later in the year.
- The regional bank crisis seems similar to a case of malaria. Each week, the fever returns and we lose another bank. On Monday, First Republic Bank (FRC) equity went to zero. Pacwest Bank (PACW) announced it is looking at strategic alternatives as it is down 90% from its 52-week high. Western Alliance Bancorp (WAL) stock is down 80% from the highs and trading was halted on Thursday. It is unclear when and where it will stop.

## Region Bank Index



- Client conversations and media reports project the banking crisis-induced credit tightening will act as a de facto rate hike with a magnitude that could range from 25bps – 150bps. This dovetails with his comments that the Fed is assessing whether current levels are restrictive enough.

But there is one conversation that is hanging over all other conversations and the stock market currently. It is the conversation highlighted by Treasury Secretary Janet Yellen this week when she said the U.S. could run out of cash by June 1 if the debt ceiling is not raised or suspended. Because the Federal government is a deficit spender, it needs to continually borrow money to pay its bills including interest and principal payments on outstanding debt.

The risk-free benchmark in investing has been U.S. treasury obligations for at least the past 100 years. If the risk-free asset becomes risky, all other risk assets will suffer. Fed Chairman Powell's comment about the conversation on the debt ceiling negotiation this week was: "We should not be talking about a world where the U.S. does not pay its bills."

Because of the potential contentious nature of the debt ceiling debate, the S&P 500 Index may not be able to climb above recent resistance levels of 4170 in the near-term. Since 1960, the debt ceiling has been raised, extended or revised 78 times. It is likely that the current debt conversation will lead to the 79<sup>th</sup> ceiling raise. But while we wait, market volatility may be elevated and buying interest subdued.

## 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](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*"I'm trying to find the right Cavalli bag."*

## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

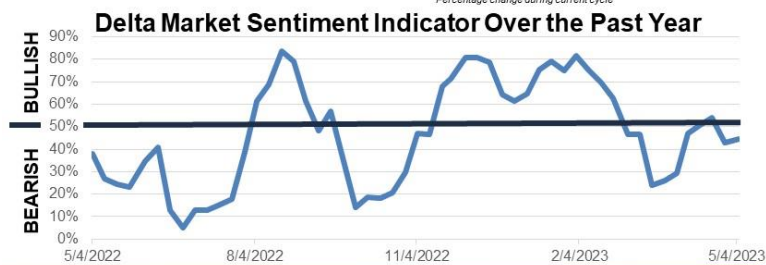
**44.5**

Our technical indicator increased from 43.1 to 44.5 this week

### INDICATOR STATISTICS

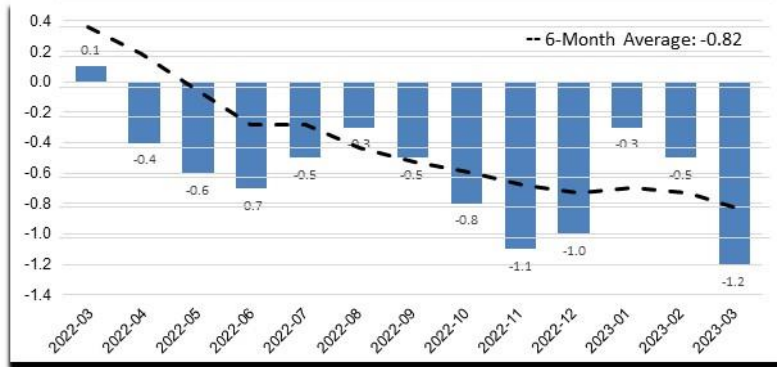
Consecutive Bearish Weeks:	2
Cycle Inception Date:	4/27/2023
Range:	43.1 - 44.5
Mean:	43.8
Bullish Weeks YTD:	11
Bearish Weeks YTD:	7
*S&P 500	-1.1%
*DJIA	-1.5%
*NASDAQ	-1.1%

\* Percentage change during current cycle



## Leading Economic Index % Change Monthly

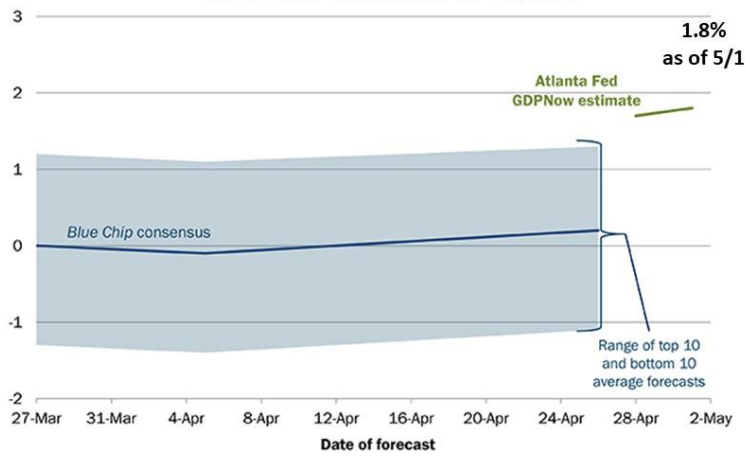
March 2022 – March 2023



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

## Atlanta Fed GDPNow Forecast

Real GDP Estimate for 2Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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