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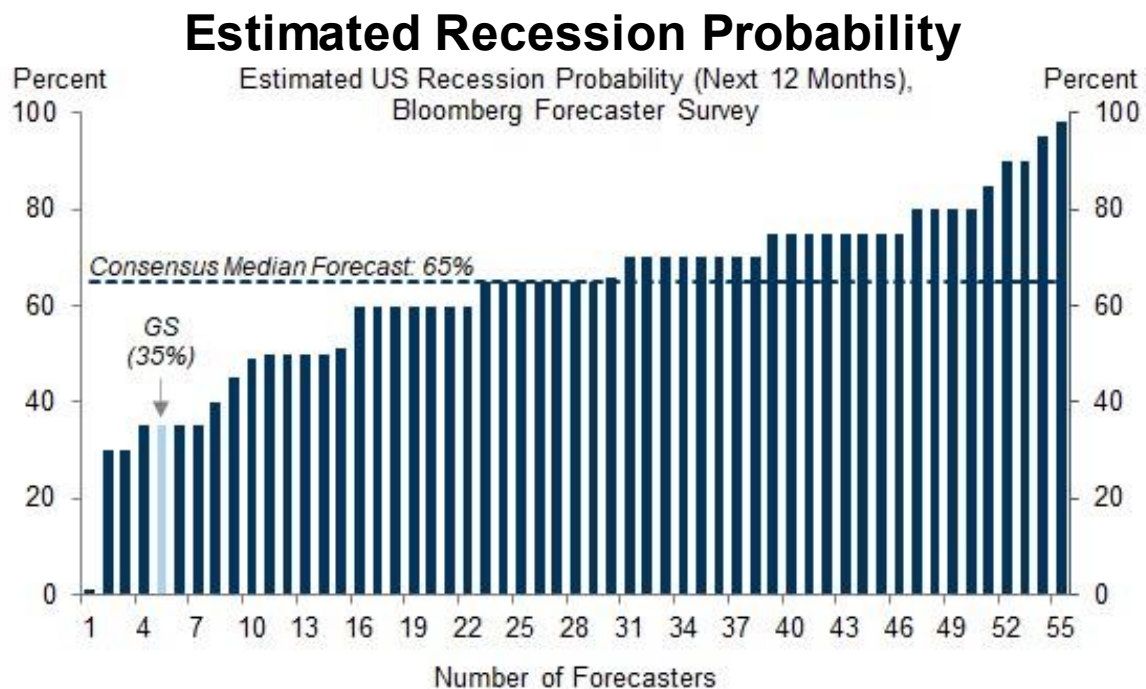
*Delta manages portfolios at TD Ameritrade and Schwab.*

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May 19, 2023

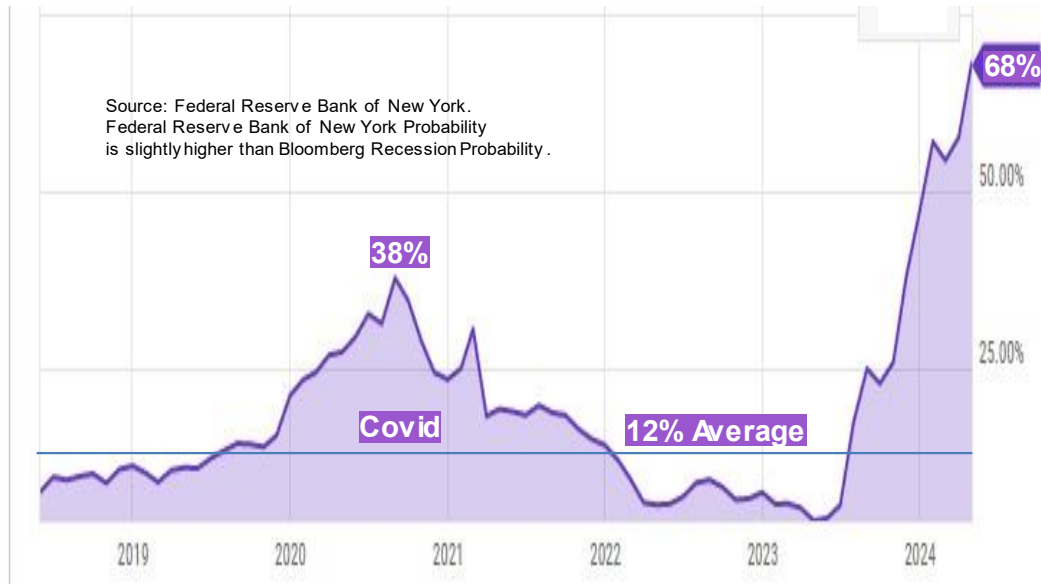
### **If A Recession Is Coming, Where Are We Going?**

The Bloomberg Forecaster Survey shows the consensus median forecast for recession in the next 12 months is 65%.



Since 1990, the annual probability of the U.S. entering a recession has been about 12%. The chart below shows how elevated the current recession expectation is relative to the past several years including the 2020 Covid shutdown.

## Estimated Recession Probability



If it's coming, where are we going? We are concerned about recession because the stock market suffers its worst performance during recessionary times. Avoiding major, multi-year loss as a result of an extended market decline during a recession is a good idea if the trades can be made profitably and reliably.

In 2018, the International Monetary Fund (IMF) published a research report entitled "How Well Do Economists Forecast Recessions?" The first words of the study are: "Recessions are not rare: economies are in a state of recession 10-12 percent of the time. What is rare is a recession that is forecast in advance." The study concludes that both public and private recession forecasters are equally inaccurate and that even if a recession is correctly anticipated, the magnitude is nearly always missed by "a wide margin."

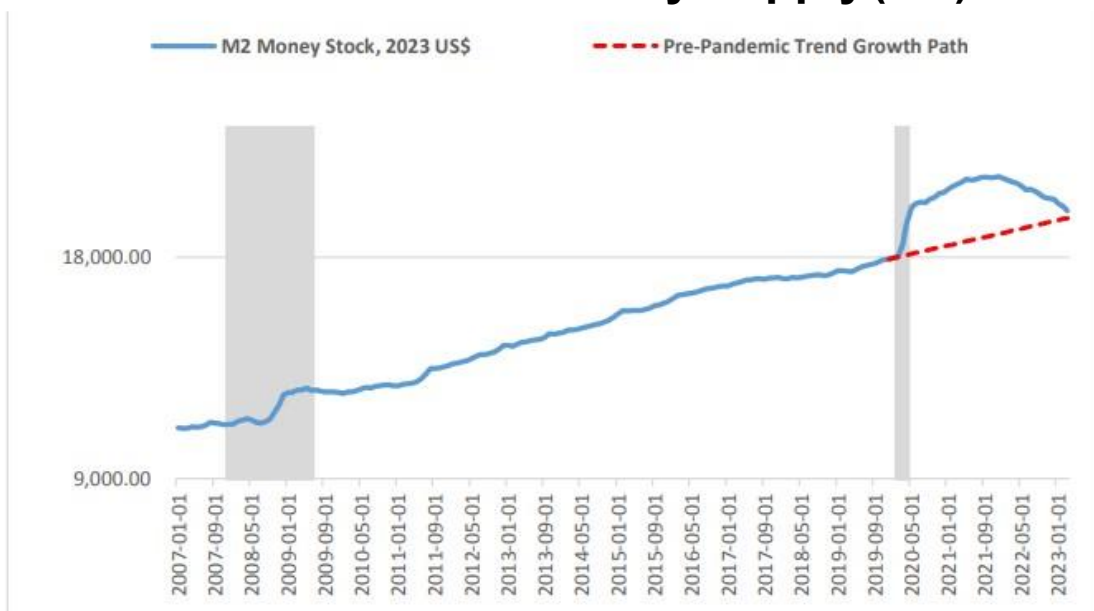
The steeply inverted yield curve and the Fed's aggressive interest rate hikes are a substantial reason to believe a recession is on its way. What is different this time is the stock market has been in a drawdown for the past 17 months and the S&P 500 reached a low of -25% from the high and the NASDAQ was down -37% from high to low. This bearish price action may indicate that a recession is already priced into stock valuations.

A Reuter's poll of 41 Wall Street strategists shows a median S&P 500 price target by 2023 year-end of 4,200. A Bloomberg survey shows a median forecast of 4,009. The S&P 500 is currently trading at 4,100, right in the middle of the consensus year-end outlook. Is this a roundabout way of saying the recession is priced in?

Corporations have authorized ~\$600 billion worth of stock buybacks year-to-date, the second best year on record. This equates to about \$5 billion worth of daily demand. From mega-cap technology: AAPL has \$23bn remaining on their old authorization, and added an additional \$90bn ... GOOG has \$13bn remaining on their old authorization, and added an additional \$70bn ... META has \$42bn remaining on their authorization ... and MSFT has \$27bn remaining on theirs. Stock buybacks are acting like ballast for the overall market.

In the chart below from Goldman Sachs, they make a case that the money supply trend is normalizing. A normalized money supply reduces inflation pressure and may return historical correlations between financial market signals and real-world events.

## Normalization of Money Supply (M2)



Investors are sitting on over \$5.3 trillion invested in money market funds. This is the most ever and the chart below shows the rising pattern since the 1990s and the accelerated rise since Covid. When short-term interest rates subside and the yield curve regains a positive slope, this \$5.3 trillion will be motivated to rotate into higher return investments. This is a source of fuel that could drive the next bull market.

## Mountain of Cash in US Money Market Funds



For the moment with recession probability elevated and stocks trading at a historically high P/E (especially with much higher interest rates than what we experienced over the past several years), it is hard to argue with the concept of collecting about 5% to hold low-risk, short-term bonds. But, short-term bonds are not a long-term answer. It will be interesting to see what new bull markets will be created over time as short-term, protective investing refocuses on long-term capital appreciation.

### 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 would like to thank my owners, my trainer, my jockey, and everyone in my stable, without whom my victory would not have been possible."*

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## **Delta Stock Market Dashboard**

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

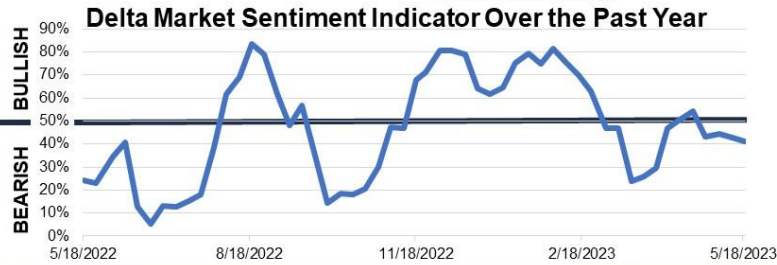
**41.0**

Our technical indicator decreased from 42.9 to 41.0 this week

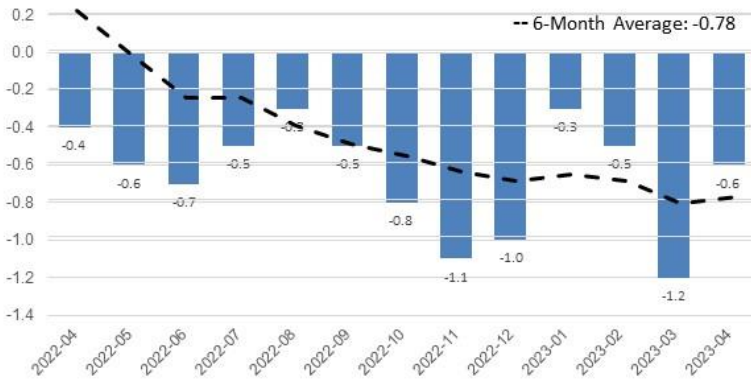
INDICATOR STATISTICS

Consecutive Bearish Weeks:	4
Cycle Inception Date:	4/27/2023
Range:	41.0 - 44.5
Mean:	42.9
Bullish Weeks YTD:	12
Bearish Weeks YTD:	8
*S&P 500	1.8%
*DJIA	-0.3%
*NASDAQ	4.3%

\* Percentage change during current cycle



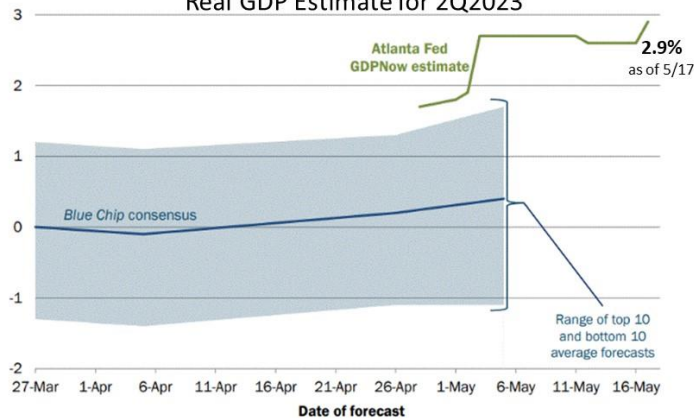
**Leading Economic Index % Change Monthly**  
April 2022 – April 2023



Source: The Conference Board – last update 5/18/2023

**Atlanta Fed GDPNow Forecast**

Real GDP Estimate for 2Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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