DELTA
INVESTMENT
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Delta Insights
a weekly commentary on investing

July 7, 2023

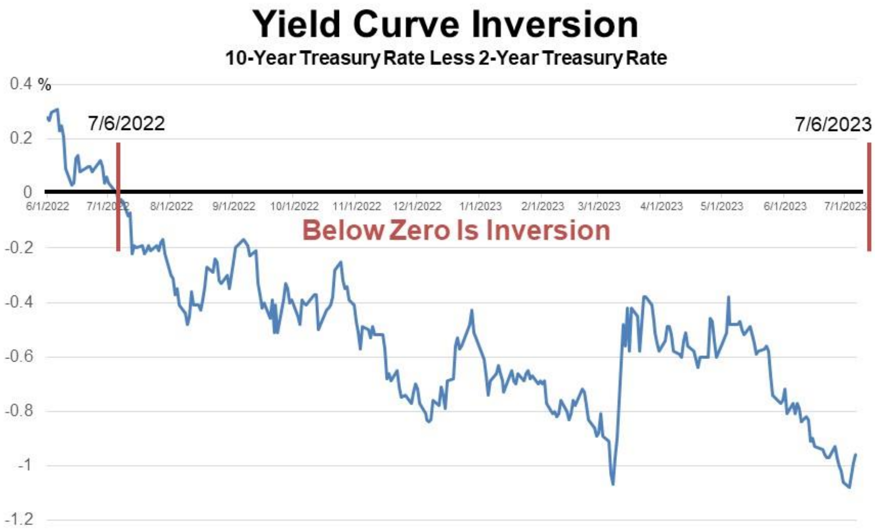
No Brakes

The Federal Reserve raised the Fed Funds rate from 0%-0.25% to 5.00-5.25% since March of last year. The pace and amount of rate increases came as a surprise to most market strategists. The reason for the surprise is market strategists believed the economy would slow rapidly as a result of much higher interest rates. Coming into 2023, the market expectation was for one more rate hike, a pause and then rate cuts in the second half of the year. The Fed raised rates in March and May of this year and now is expected to raise again in July and then once again later in the year.

The Fed raises interest rates to slow economic activity for the purpose of reducing inflation. Higher rates act as a brake on consumption. Although the Fed is pumping the brakes harder than ever, the economy and consumers keep racing forward. According to ADP, private sector hiring increased by 497,000 jobs in June, twice the expected pace. Inflation currently is about twice as high as the Fed target rate of 2%.

Interest rates give us insight into economic expectations. When the Fed raises the Federal Funds rate, an overnight lending rate between banks, long-maturity rates like the 10-year treasury rate may decline. The long-dated interest rate (e.g., 10-year rate) reflects a blend of growth and inflation expectations. When the Fed raises short-term rates aggressively, the market expects both growth and inflation to subside.

On July 6, 2022, the 2-year treasury rate went above the 10-year rate. The yield curve inverted and has been inverted ever since. Inversion of the yield curve is a reliable indicator of recession.



A year has past since the inversion began and the economy is not in recession. Given recent economic strength, it appears unlikely the economy will go into recession this year. If there is no recession this year or next, it would be encouraging to see the yield curve regain a positive slope (10-year rate higher than 2-year rate).

Although the yield curve is as inverted as ever, we are beginning to see a path to a positive slope. Better growth has lifted the 10-year treasury rate from about 3.6% to 4.1% in the past several weeks. Growth appears to be the primary driver of the higher 10-year rate as inflation is expected to decline significantly in the next couple of months. For example, JPMorgan Asset Management is forecasting a June CPI of 3.2%, down from 4% in May. The Fed is telling us with their "dot-plot" rate forecast that they will migrate rates lower in 2024 and beyond to an eventual target of 2.5%. If economic growth continues and the Fed sticks to their rate forecast, the yield curve may regain a positive slope sometime next year.

A positive sloping yield curve combined with positive monthly Leading Economic Index (LEI) readings would be two reliable indications that the market advance since the October 2022 low may evolve into a multi-year bull market. We still have a ways to go before the yield curve un-inverts. In the next several months, it would not be a surprise to see the LEI turn positive.

<u>Charles Schwab's conversion of TD Ameritrade Institutional accounts is scheduled to occur over Labor Day weekend</u>.

- Make sure your accounts are up-to-date. Beneficiary, standing letters of authorization to move money, address, phone numbers, etc. should be checked.

We expect it will be easier to update your information today than it will be after the transition takes place when Schwab is flooded with client service requests. All client information at TD Ameritrade will port over to Schwab if updated prior to August 18. Call us if you have any questions.

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.

"That dream means you're hungry—how about a hot dog?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

Bullish

THIS WEEK'S NUMBER IS

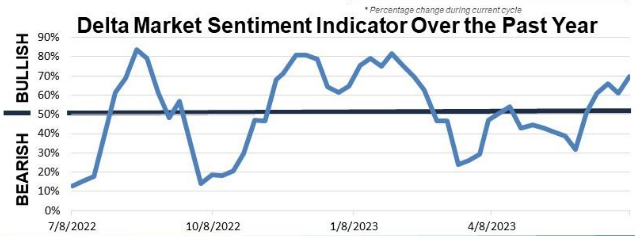
69.6

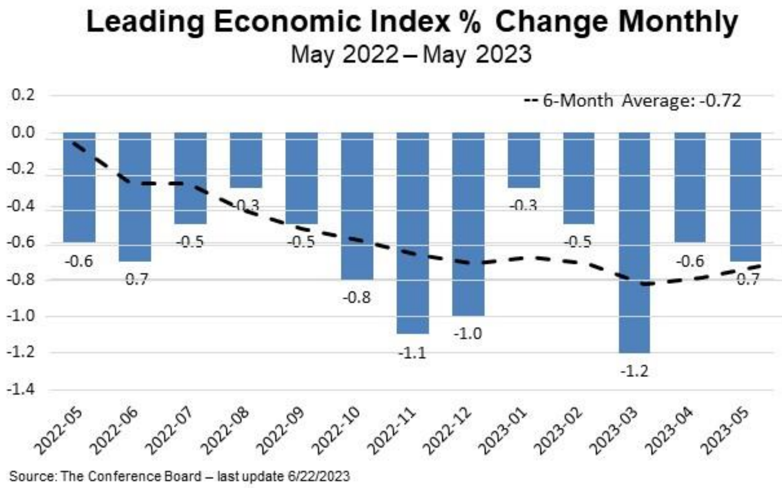
Our technical indicator increased from 61.2 to 69.6 this week

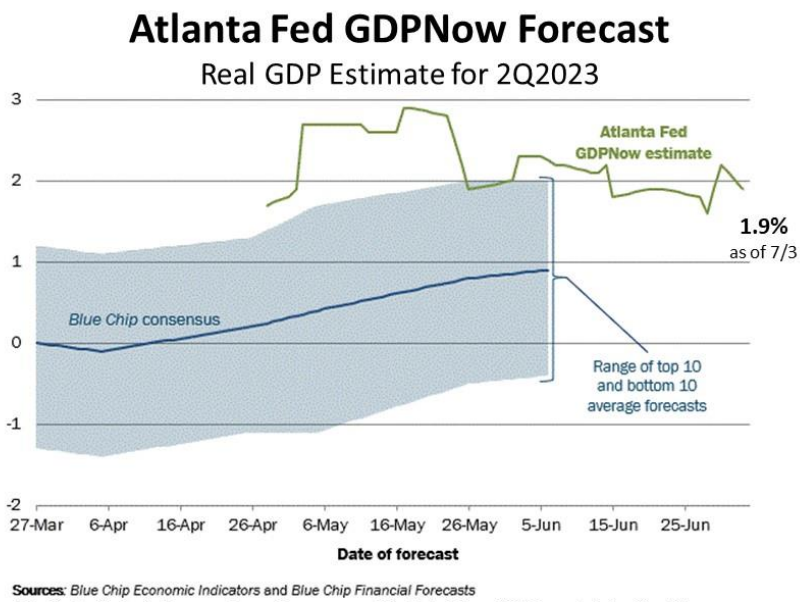
INDICATOR STATISTICS

Consecutive Bullish Weeks:	5
Cycle Inception Date:	6/9/2023
Range:	51.2 – 69.6
Mean:	61.7
Bullish Weeks YTD:	15
Bearish Weeks YTD:	12
*S&P 500	2.0%
*DJIA	0.3%
*NASDAQ	2.7%

* Percentage change during current cycle




Leading Economic Index % Change Monthly
May 2022 – May 2023
-- 6-Month Average: -0.72
-0.6
-0.7
-0.5
-0.3
-0.5
-0.8
-1.1
-1.0
-0.3
-0.5
-1.2
-0.6
-0.7
2022-05
2022-06
2022-07
2022-08
2022-09
2022-10
2022-11
2022-12
2023-01
2023-02
2023-03
2023-04
2023-05
Source: The Conference Board – last update 6/22/2023


Atlanta Fed GDPNow Forecast
Real GDP Estimate for 2Q2023
Atlanta Fed GDPNow estimate
1.9%
as of 7/3
Blue Chip consensus
Range of top 10 and bottom 10 average forecasts
27-Mar
6-Apr
16-Apr
26-Apr
6-May
16-May
26-May
5-Jun
15-Jun
25-Jun
Date of forecast
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts