

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.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

August 25, 2023

Rate Relief

In the past three months, the 10-year US treasury rate climbed by more than 15%. The sharp move higher during the month of August took the 10-year rate to the highest level its been since November 2007. As treasuries moved higher in August, stocks traded lower. The S&P 500 declined from August 1 to the Friday low of last week by 5.5% and the NASDAQ 100 was down 6.7%.

10 Year Treasury vs. S&P 500, 3 months



What caused the 10-year treasury rate to accelerate higher in August was lots of good news about the U.S. economy. Inflation is falling, earnings estimates are rising, retail sales are ahead of expectations and the job market remains firm. Since August 1, the Atlanta Fed GDPNow forecast for third quarter GDP growth has risen from about 3.9% to 5.8%.

At some point when interest rates go too high, stock valuations and eventually economic activity pull back. It appears that we approached this tipping point in August.

What is providing some rate relief this week is the global economy is slowing down. Preliminary manufacturing index readings out of the eurozone (Germany, France, Italy) were below expectations and in the sub-50% contraction zone. Export data from China has been weak and the People's Bank of China (PBOC) lowered its one-year prime rate again this week in an effort to address falling real estate prices and weak consumer spending. Weakness abroad raises expectations that the Fed is done with rate hikes and may begin to talk about lower rates.

Short-Squeeze Over

Coming into 2023, hedge funds and investment banks expected recession and lower corporate earnings. After the first quarter earnings reports were released in April, it became evident that both the economy and corporate earnings were in much better shape than expected.

When hedge funds expect lower prices in the future, they often sell stocks short. As prices remained firm and began to rise in April, short-sellers rushed to buy back their short positions to prevent further loss. A basket of stocks with the most concentrated short interest (measured with the Goldman Sachs index GSCBMSAL) rallied by nearly 40% between May and July as the "short-squeeze" played out. With the shorts covered and the intense buying pressure relieved by the end of July, the GSCBMSAL index pulled back by 18% in August.

Hedge fund positioning is much more neutral today. Their heavy-handed trading during the slow summer months appears to have played out. With interest rates backing off 16-year highs and hedge funds moving into a wait-and-see mode, the S&P 500 has been able to stabilize this week.

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're not year-round people, weekend people, or summer people. We're last-ten-days-in-August people."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

Bullish

THIS WEEK'S NUMBER IS

50.1

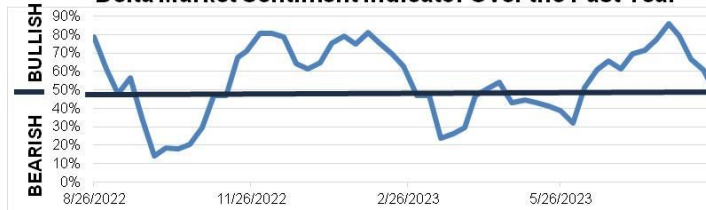
Our technical indicator decreased from 60.8 to 50.1 this week

INDICATOR STATISTICS

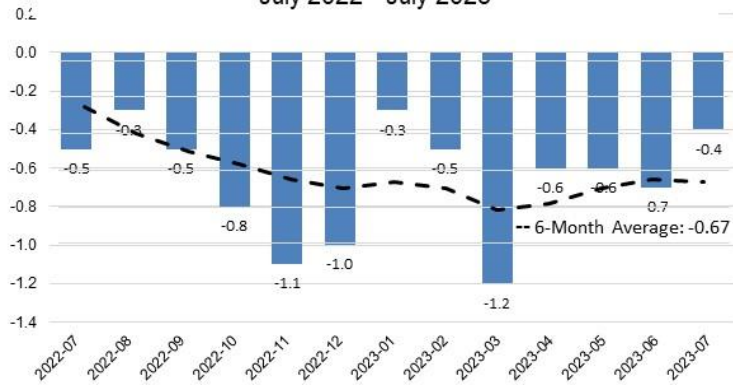
Consecutive Bullish Weeks:	12
Cycle Inception Date:	6/9/2023
Range:	50.1 – 86.1
Mean:	66.7
Bullish Weeks YTD:	22
Bearish Weeks YTD:	12
*S&P 500	3.3%
*DJIA	1.9%
*NASDAQ	3.5%

*Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



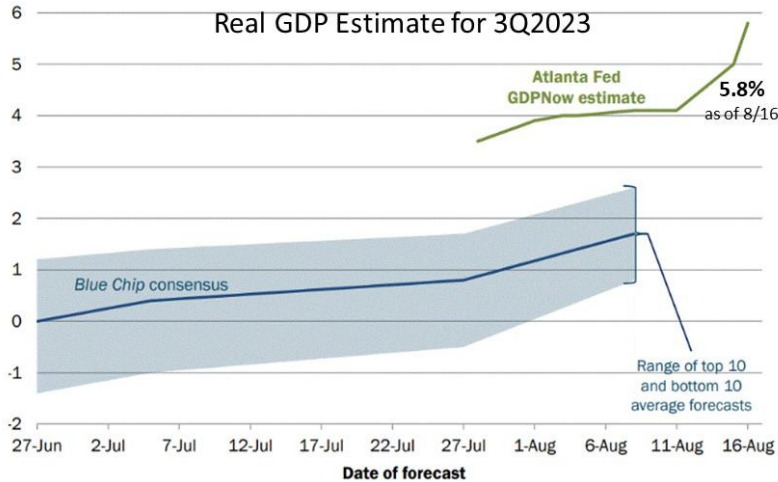
Leading Economic Index % Change Monthly July 2022 – July 2023



Source: The Conference Board – last update 8/17/2023

Atlanta Fed GDPNow Forecast

Real GDP Estimate for 3Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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