

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

October 20, 2023

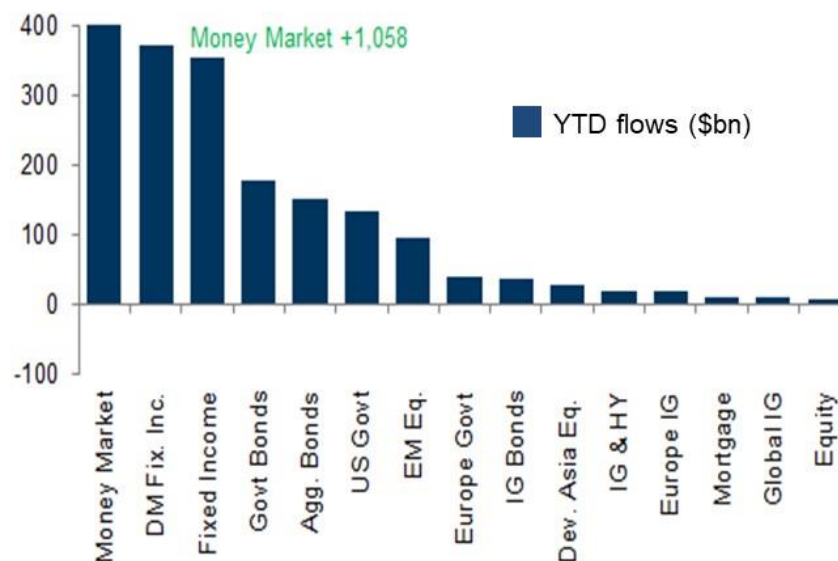
## Runaway Rates

The Fed Funds market shows the probability of the Federal Reserve not increasing the Fed Funds rate in November is over 93%. The Fed recognizes it does not need to raise rates if the financial markets will do it for them. The 10-year treasury rate, set mostly by market forces, is at a 52-week high of 4.98% and keeps rising. Taking a longer-term perspective, the 10-year rate is now at a 16-year high.



Funds follow performance. When yields on fixed income investments rise from essentially 0% (negative real yield after inflation) to 4% to 8%+ based on duration and credit risk, funds flow where the risk/return is attractive. Low risk short duration U.S. treasuries and certificates of deposit (CDs) currently offer yields of 5.5%+ over the next year. Charles Schwab's various money market funds have yields above 5%. Year-to-date, money market and other fixed income investments have attracted the majority of fund flows.

## As Yields Rise, So Do Fixed Income Fund Flows



Source: EPFR, Haver, Goldman Sachs Global Investment Research

As interest rates rise and the yield on high-quality fixed income rises, stock market price/earnings (P/E) multiples are under pressure. Fundamentally, stocks trade lower until the incremental dollar invested in stocks is equivalent or better than a dollar invested in fixed income on a risk-adjusted basis. Currently, the earnings yield (earnings/price) on the S&P 500 is 5.2% which is below the yield on short-duration treasuries.

For stocks to appreciate materially from current levels, investors will need to see earnings growth and hopefully, an end to interest rate appreciation. Very early in earnings season, 84% of the S&P 500 companies that have reported have delivered a positive EPS surprise. The S&P 500 earnings growth rate for the quarter is positive.

The Wall Street Journal survey of economic forecasters reports the probability of recession over the next 12 months declined from 54% to 48%. This is the first time this reading has been below 50% since mid-2022. Initial jobless claims declined below 200,000 for the first time since January. Initial jobless claims are considered a leading indicator and suggest continued strength in consumer spending. The Consumer Product Index (CPI) with the shelter component excluded is running at a 2% (Fed target) year-over-year rate.

Forecasting interest rates is a significant challenge. Market uncertainty is elevated. Keeping a balanced approach with some shift into the most attractive parts of the fixed income market appears to be the prudent path currently.

## Delta Investment Management

Who we are:

- An SEC Registered Investment Advisor
- We manage accounts for individuals with the assets held at Charles Schwab in the client's name.
- We are a fiduciary -- Delta does not receive commissions from any source.
- We are wealth managers.
- We have decades of experience in mitigating portfolio downside risk.
- We are an independent, high-service organization.
- We offer top-notch tax loss harvesting investment programs.
- We can help recommend you to a CPA tax planning and preparation service.

### 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).



*"Listen to me as your friend and lover. And lawyer."*

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# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**Bearish**

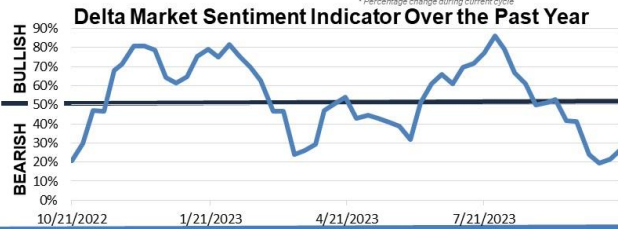
THIS WEEK'S NUMBER IS

**26.4**

Our technical indicator increased from 21.7 to 26.4 this week

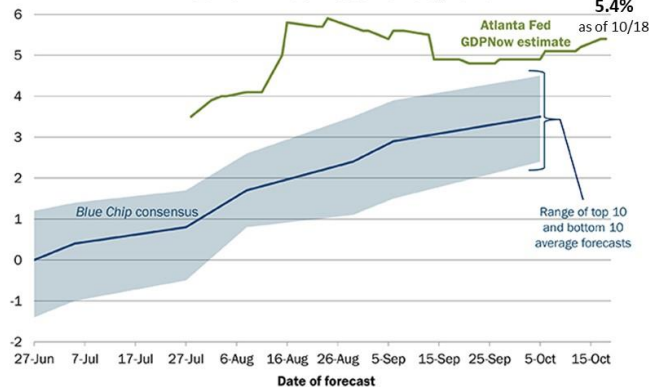
INDICATOR STATISTICS

Consecutive Bearish Weeks:	6
Cycle Inception Date:	9/14/2023
Range:	19.5 – 41.8
Mean:	29.2
Bullish Weeks YTD:	24
Bearish Weeks YTD:	18
*S&P 500	-4.5%
*DJIA	-3.9%
*NASDAQ	-4.3%



## Atlanta Fed GDPNow Forecast

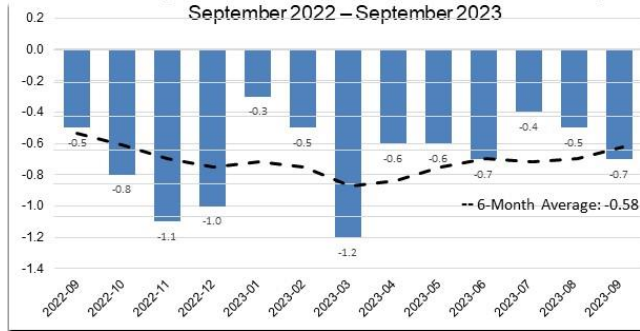
Real GDP Estimate for 3Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

## Leading Economic Index % Change Monthly

September 2022 – September 2023



Source: The Conference Board – last update 10/19/2023

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