

DELTA  
INVESTMENT  
MANAGEMENT

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**AAII**

# **2022 Bear Market That No One Saw Coming**

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# Disclosures

The presentation is being provided for informational purposes only and should not be used or construed as a recommendation of any security, sector or investment strategy.

The opinions in this presentation are as of the date of the presentation.

Stock and bond markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments as well as interest rate risk, inflation, credit and default rates. In addition, foreign securities are subject to interest rate, currency exchange rate, economic and political risks, all of which are magnified in emerging markets.

The S&P 500 Index is a market capitalization weighted index of 500 widely held stocks often used as a proxy for the stock market.

Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.

Past performance is no guarantee of future results or returns.

Investing involves risk, including risk of loss.

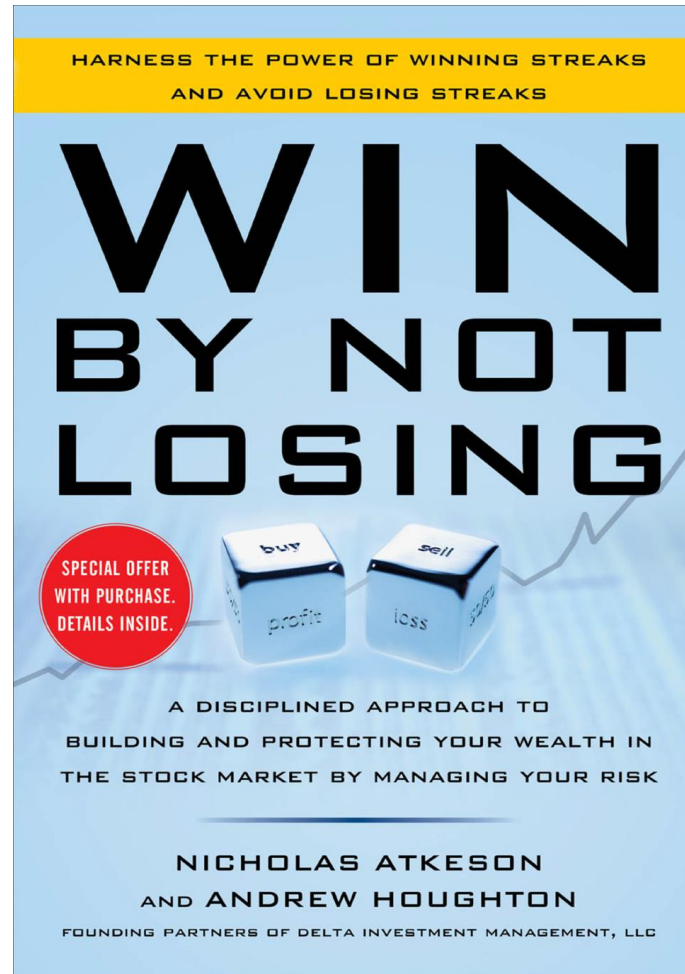
Delta Investment Management is a California registered investment advisor. The firm is based in San Francisco, CA. For more information, please visit [www.deltaim.com](http://www.deltaim.com) or call (415) 249-6337.

# Delta Investment Philosophy

- ❖ *We believe there are periods in market cycles to be fully invested and there are other periods not to be fully invested*
- ❖ *As such, we believe it is necessary to be proactive in managing money*
- ❖ *As active managers, we follow market-tested, proven investment disciplines*
- ❖ *During bullish cycles, we seek to invest in the strongest performing assets*
- ❖ *During bearish cycles, we seek to preserve capital by reducing exposure to risk assets*
- ❖ *We believe diversification in both asset type and asset allocation methodology strengthens portfolio performance through the full investment cycle*

# *Win by Not Losing*

Book Available  
On Amazon



# Delta MSI in Barron's

February 3, 2014

BARRON'S

M57



## Market Laboratory • Indicators

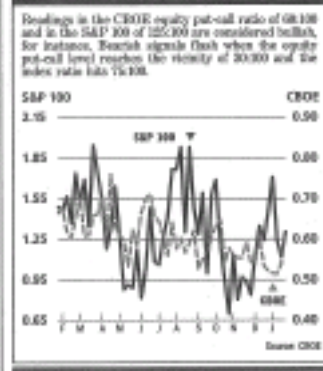
### MONEY RATES

	Latest	Prev.	1yr. Ago
Discount Rate (Fed)	0%	0%	0%
Prime Rate (Bank)	3%	3%	3%
Fed Funds Rate	0.25%	0.25%	0.25%
3-Month T-Bill	0.10%	0.10%	0.10%
6-Month T-Bill	0.10%	0.10%	0.10%
12-Month T-Bill	0.10%	0.10%	0.10%

### FEDERAL RESERVE DATA BANK

Member Bank	Latest	Prev.	Year Ago
Reserve Dpts. (Bil. \$)	1,328.3	1,326.1	1,282.0
U.S. Gov't securities	3,038.3	3,036.1	3,000.0
Federal agency notes	54.7	54.7	54.7
Reserve bank credit	11.4	11.4	11.4

### CRUDE PUT/CALL RATIO vs S&P 100



### FOREIGN EXCHANGE

Country	Foreign Currency (1 U.S. \$)	Foreign Currency (1 U.S. \$)	U.S. \$ (1 Foreign Currency)	U.S. \$ (1 Foreign Currency)
Argentina (Peso)	13.07	13.07	0.0765	0.0765
Australia (Dollar)	0.91	0.91	1.1000	1.1000
1-month forward	0.91	0.91	1.1000	1.1000
3-month forward	0.91	0.91	1.1000	1.1000
6-month forward	0.91	0.91	1.1000	1.1000
Bahamas (Dollar)	1.00	1.00	1.0000	1.0000
Brazil (Real)	0.24	0.24	4.1667	4.1667
Canada (Dollar)	0.74	0.74	1.3514	1.3514
China (Yuan)	6.00	6.00	0.1667	0.1667
China (Renminbi)	6.00	6.00	0.1667	0.1667
Colombia (Peso)	2,000.0	2,000.0	0.0005	0.0005
Czech Rep. (Crown)	16.00	16.00	0.0625	0.0625
Denmark (Krone)	6.46	6.46	0.1548	0.1548
Egypt (Pound)	14.75	14.75	0.0678	0.0678
Hong Kong (Dollar)	0.78	0.78	1.2821	1.2821
Hungary (Forint)	200.0	200.0	0.0050	0.0050
India (Rupee)	65.00	65.00	0.0154	0.0154
Indonesia (Rupiah)	1,936.0	1,936.0	0.0005	0.0005
Israel (Sheqel)	3.40	3.40	0.2941	0.2941
Japan (Yen)	100.00	100.00	0.0100	0.0100
1-month forward	100.00	100.00	0.0100	0.0100
3-month forward	100.00	100.00	0.0100	0.0100
6-month forward	100.00	100.00	0.0100	0.0100
Jordan (Dinar)	0.71	0.71	1.4085	1.4085
Korea (Won)	1,000.0	1,000.0	0.0010	0.0010
Latvia (Lats)	0.06	0.06	16.6667	16.6667
Malaysia (Ringgit)	2.33	2.33	0.4291	0.4291
Mexico (Peso)	16.00	16.00	0.0625	0.0625
New Zealand (Dollar)	0.69	0.69	1.4493	1.4493
Norway (Krone)	4.76	4.76	0.2101	0.2101
Poland (Zloty)	32.00	32.00	0.0313	0.0313
Romania (Leu)	24.00	24.00	0.0417	0.0417
Saudi Arabia (Riyal)	3.75	3.75	0.2667	0.2667
Singapore (Dollar)	0.74	0.74	1.3514	1.3514
South Africa (Rand)	6.64	6.64	0.1506	0.1506
South Korea (Won)	1,000.0	1,000.0	0.0010	0.0010
Sweden (Krona)	8.00	8.00	0.1250	0.1250
Switzerland (Franc)	0.71	0.71	1.4085	1.4085
1-month forward	0.71	0.71	1.4085	1.4085
3-month forward	0.71	0.71	1.4085	1.4085
6-month forward	0.71	0.71	1.4085	1.4085
Taiwan (Dollar)	32.00	32.00	0.0313	0.0313
Thailand (Baht)	30.00	30.00	0.0333	0.0333
Turkey (Lira)	1,634.0	1,634.0	0.0006	0.0006
U.K. (Pound)	0.69	0.69	1.4493	1.4493
1-month forward	0.69	0.69	1.4493	1.4493
3-month forward	0.69	0.69	1.4493	1.4493
6-month forward	0.69	0.69	1.4493	1.4493
United Arab Emirates (Dirham)	3.67	3.67	0.2725	0.2725
Uruguay (Peso)	34.00	34.00	0.0294	0.0294
Venezuela (Bolívar)	200.0	200.0	0.0050	0.0050

### DELTA MARKET SENTIMENT INDICATOR

The Delta MSI measures the position of ~3,600 stocks relative to an intermediate-term moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this MAC point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced. Manager uses discretion on asset allocation when MSI is 50% +/- 3%.

Current Sentiment	Last Week	2 Weeks Ago	3 Weeks Ago
BULLISH	52.1%	67.4%	65.2%

Current Market Exposure: 100% Equities, 0% Bonds, 0% Cash  
Source: Delta Investment Management  
www.deltain.com, (415) 249-6337

### ADJUSTABLE MORTGAGE BASE RATES

Rate	Jan 25	1 yr. Ago	% Chg.
1 Year Treas/Bills	0.11	0.11	0.15 -26.57
1 Year Treas/Notes	0.10	0.10	0.15 -33.33
1 Year Treas/Bonds	0.10	0.10	0.20 -50.00
3 Year Treas/Notes	1.55	1.65	0.79 -50.91
5 Year Treas/Notes	2.82	2.85	1.90 -33.33
7 Year Treas/Notes	3.47	3.53	2.65 -36.45
10th District % Dec	0.784	0.783	1.871 -26.80
FY13 Contract Rate	4.25	4.21	3.229 29.18

### DELTA MARKET SENTIMENT INDICATOR

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www.deltain.com, (415) 249-6337

Member Bank	Latest	Prev.	Year Ago
Required Res. FF	102,244	102,880	2,881 -771.482
Excess Reserves	2,448,828	2,343,610	4,581,532,188
Borrowed Reserves	118	152	-21,711 989
Free Reserves FF	2,448,828	2,343,610	4,581,532,188
Monetary Base	3,753,121	3,853,821	2,751,274,469

### INVESTOR SENTIMENT READINGS

High bullish readings in the Consensus stock index or in the Market Vane stock index usually anticipate of Market Vane, low, market indicators.

	Last Week	2 Weeks Ago	3 Weeks Ago
Consensus Index	65%	71%	72%
Consensus Bullish Sentiment	65%	71%	72%
Market Vane	81%	85%	86%
Dollar	32.2%	35.7%	35.8%
Oil	22.8	22.8	28.5
Neutral	35.1	35.1	38.5

### Market Vane

Index	Latest	Prev.	1 yr. Ago
Market Vane	81%	85%	86%
Dollar	32.2%	35.7%	35.8%
Oil	22.8	22.8	28.5
Neutral	35.1	35.1	38.5

### TIM Group Market Sentiment

Index	Latest	Prev.	1 yr. Ago
Market Vane	81%	85%	86%
Dollar	32.2%	35.7%	35.8%
Oil	22.8	22.8	28.5
Neutral	35.1	35.1	38.5

### MONEY SUPPLY

Member Bank	Latest	Prev.	Year Ago
Money Supply (Bil. \$)	3,753.1	3,853.8	2,751.3
M1	2,675.5	2,662.3	2,476.6
M2	4,187.2	4,088.7	3,462.4
Total (incl. Fed Reserve)	4,889	4,718	4,081
Monthly Money Supply	4,889	4,718	4,081
Year-to-date December	4,889	4,718	4,081
M1	2,675.5	2,662.3	2,476.6
M2	4,187.2	4,088.7	3,462.4

# Weekly Newsletter



DELTA  
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*Delta Insights*

a weekly commentary on investing

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*Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner.*

*Delta manages stock and bond portfolios at Schwab and TD Ameritrade.*

*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 if you would like to learn more how we can be your partner.*

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## The Hidden Risks of “Safe” Assets

April 6, 2018

Dear Nick,

Money managers often advise clients who would like more safety in their portfolios to increase the weighting of bonds versus stocks. Historically, bonds have experienced lower volatility than stocks. Volatility (standard deviation) is one way risk is measured in finance.

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# Are We In A Recession in 2022

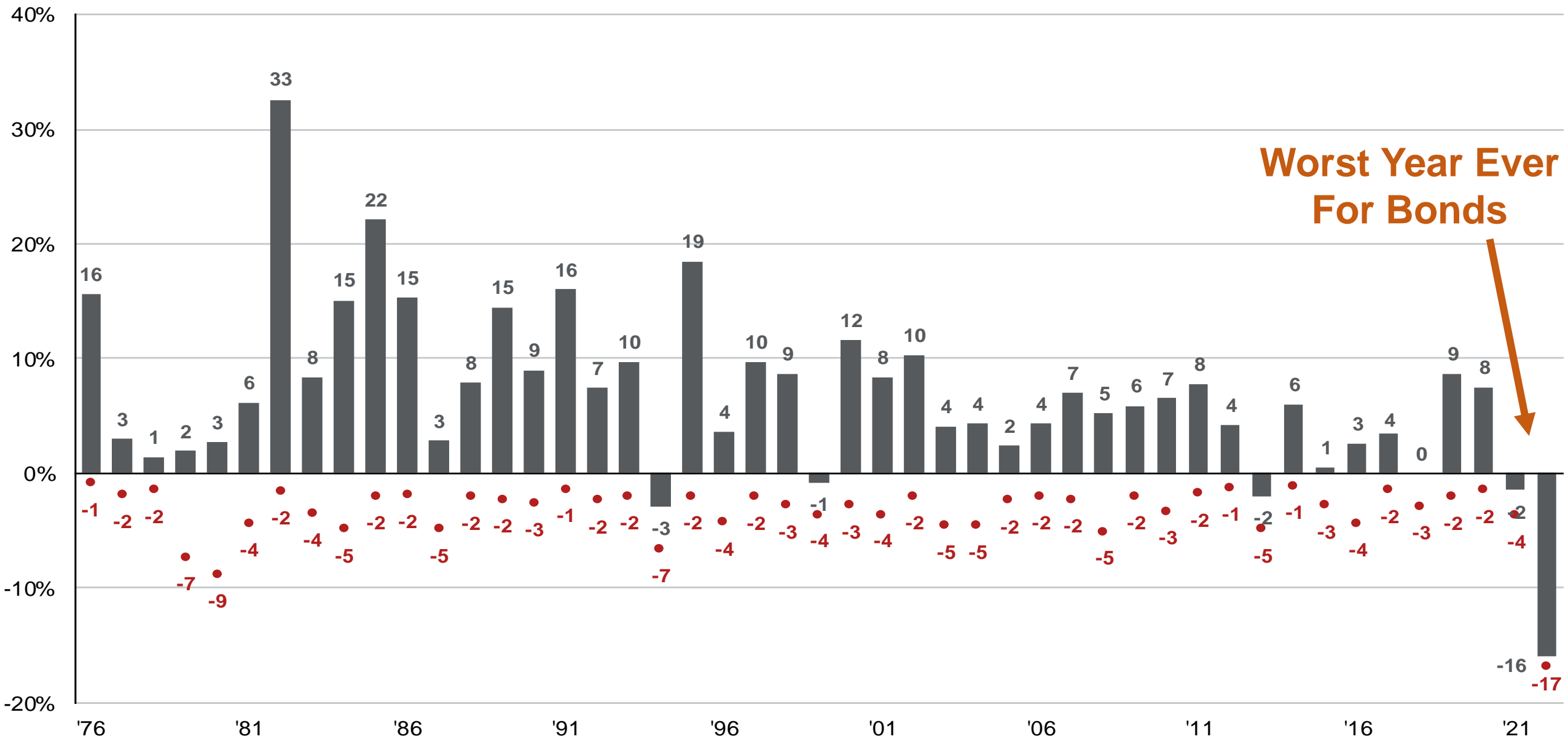
## S&P 500 Intra-Year and Calendar Year Returns



# Bloomberg US Agg. Annual Returns and Intra-Year Declines

## Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

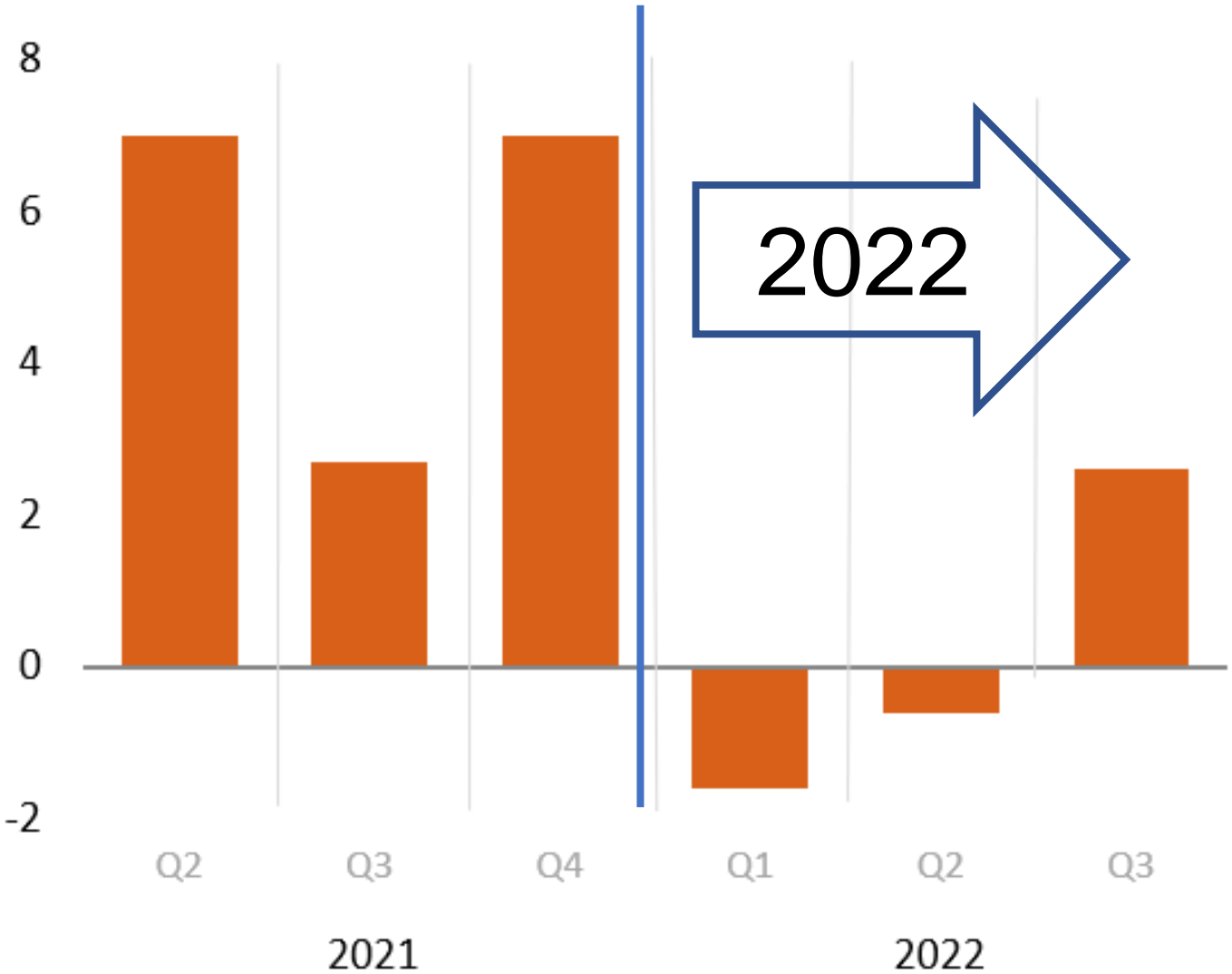
Despite average intra-year drops of 3.1%, annual returns positive in 42 of 46 years



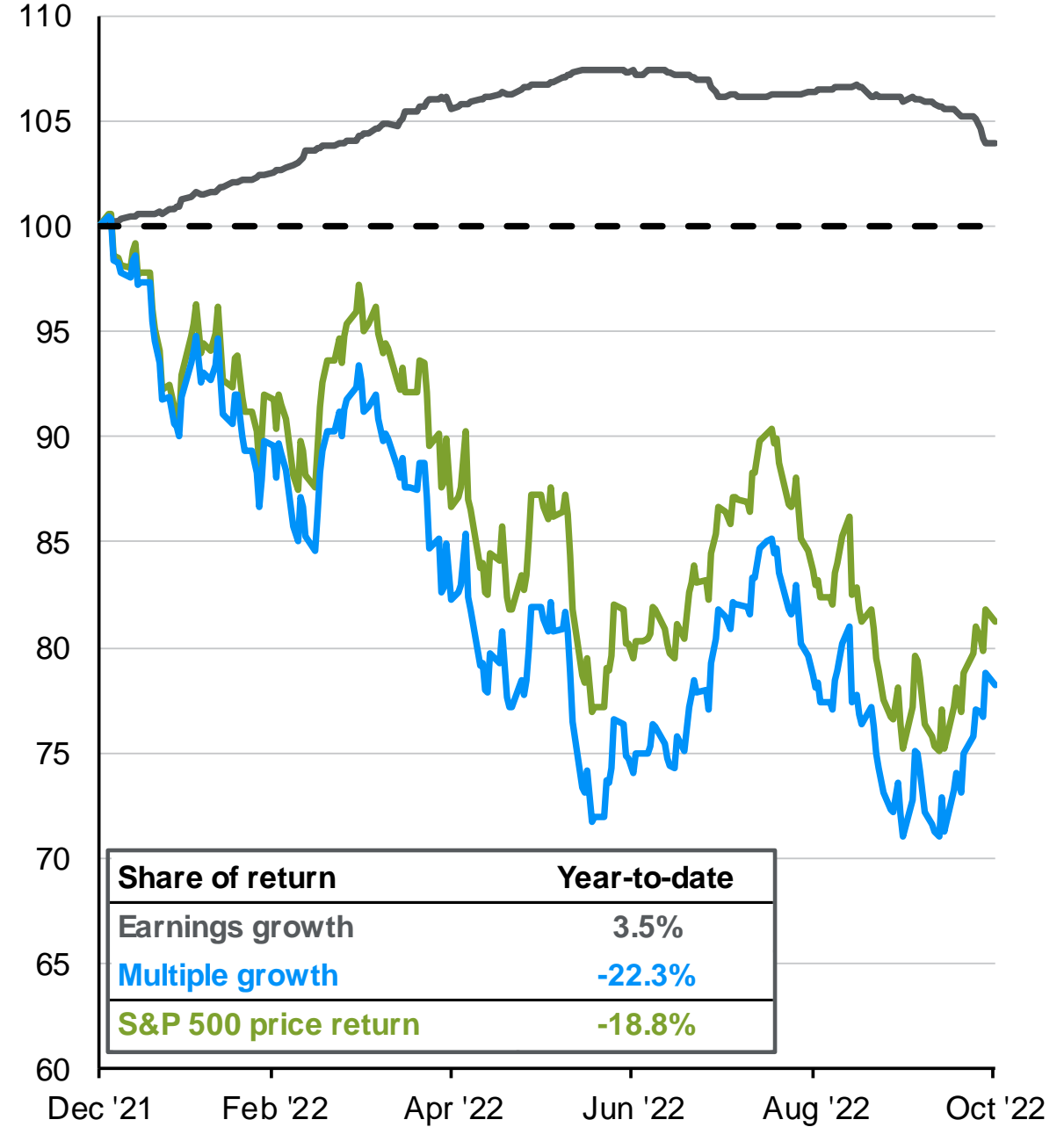
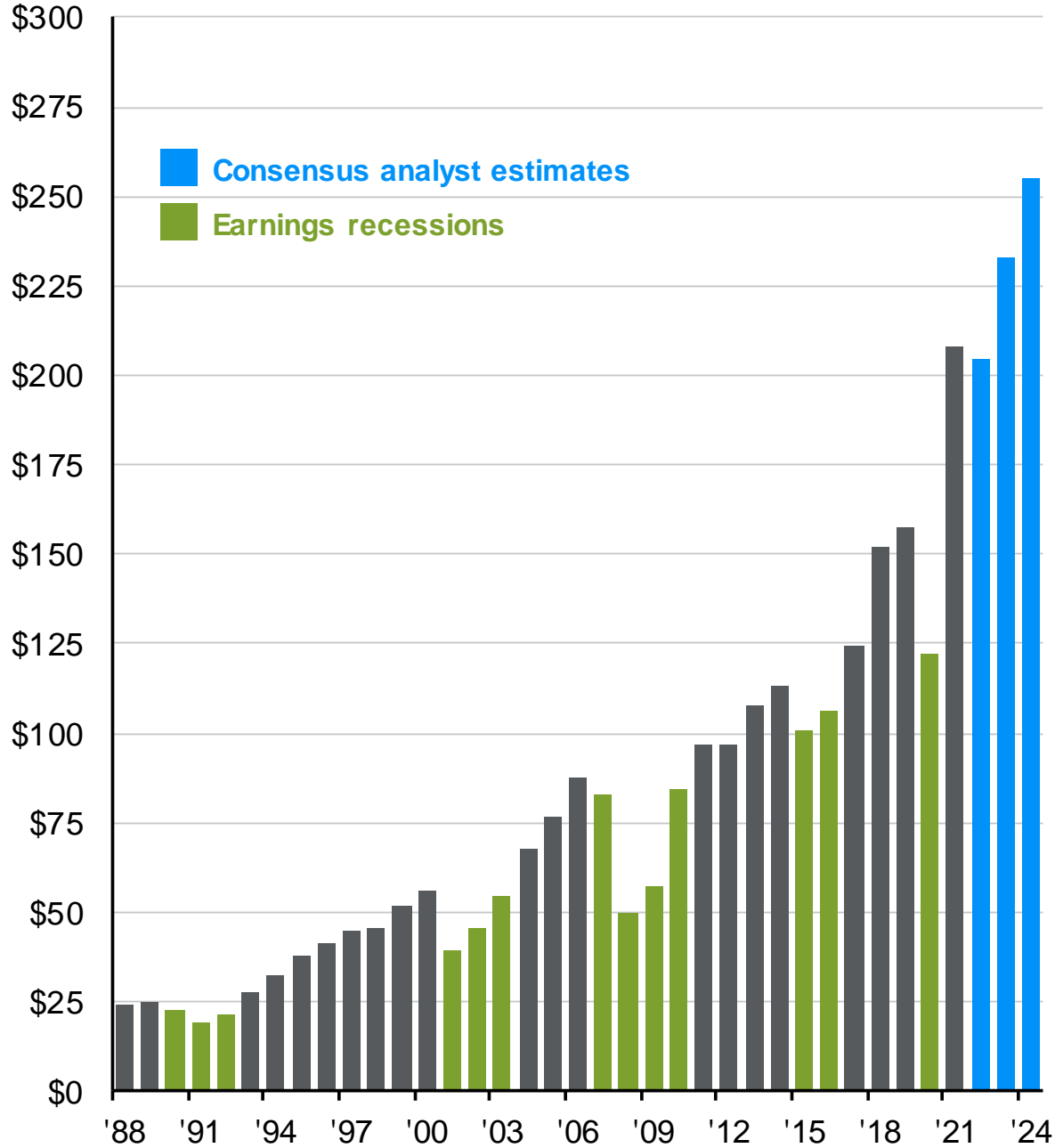


# REAL GDP

Real GDP: Percent change from preceding quarter

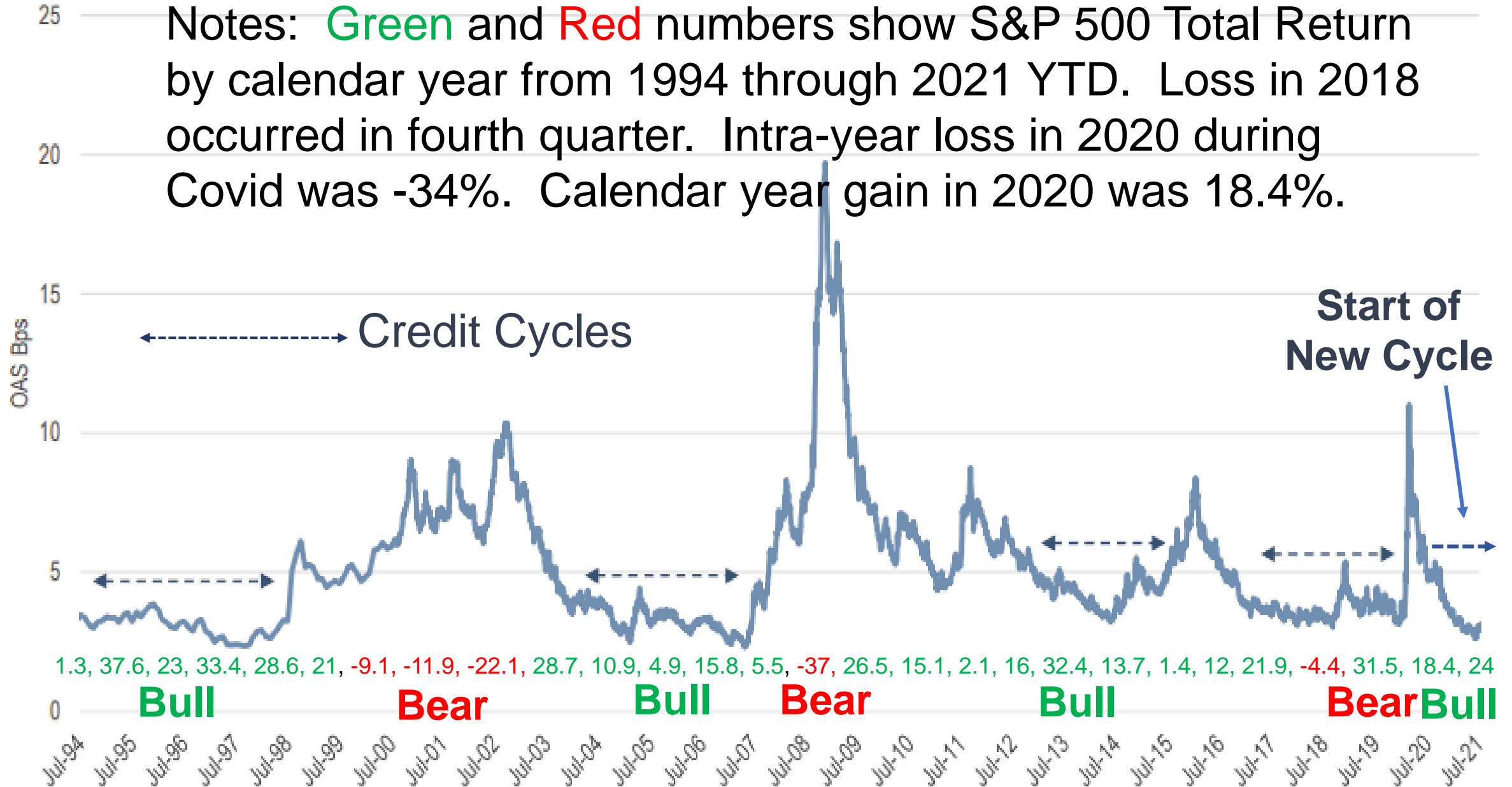


# Corporate Profits and Sources of Return as of 10/31/2022

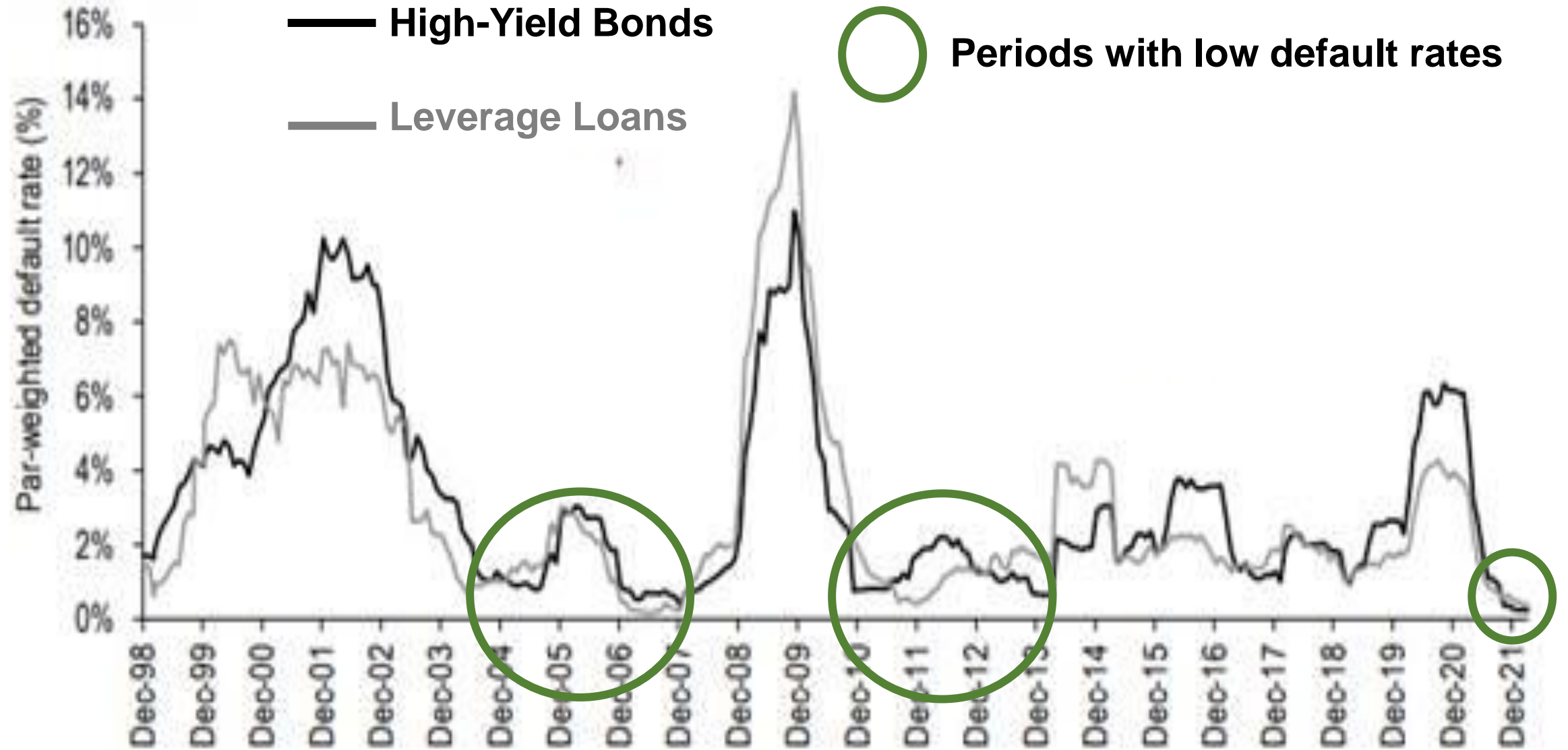


# High Yield Spreads and Stock Market Cycles

Notes: **Green** and **Red** numbers show S&P 500 Total Return by calendar year from 1994 through 2021 YTD. Loss in 2018 occurred in fourth quarter. Intra-year loss in 2020 during Covid was -34%. Calendar year gain in 2020 was 18.4%.



# High-Yield Bond and Loan Default Rates



# Core PCE (Inflation), 10-Years

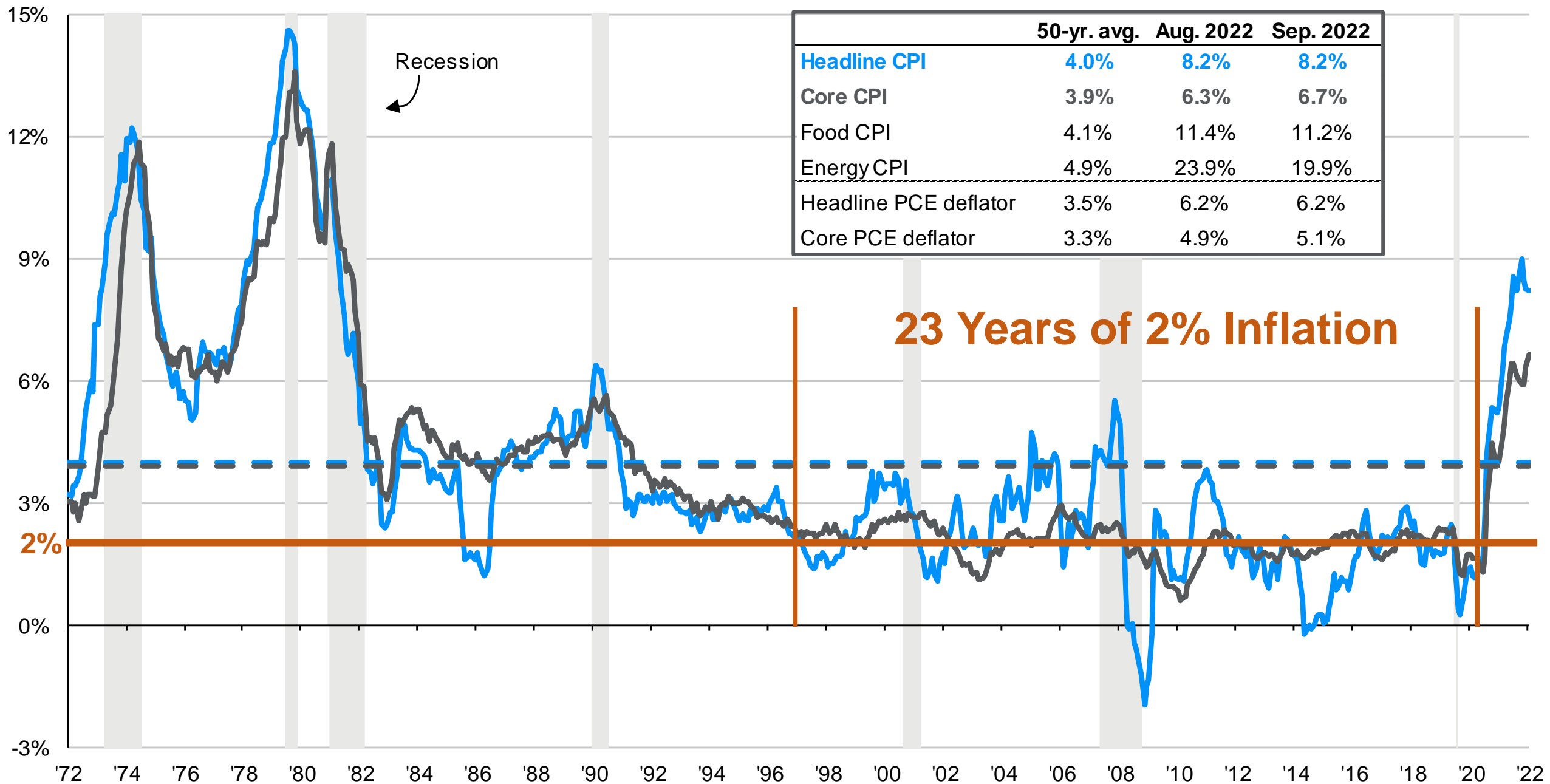


— Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



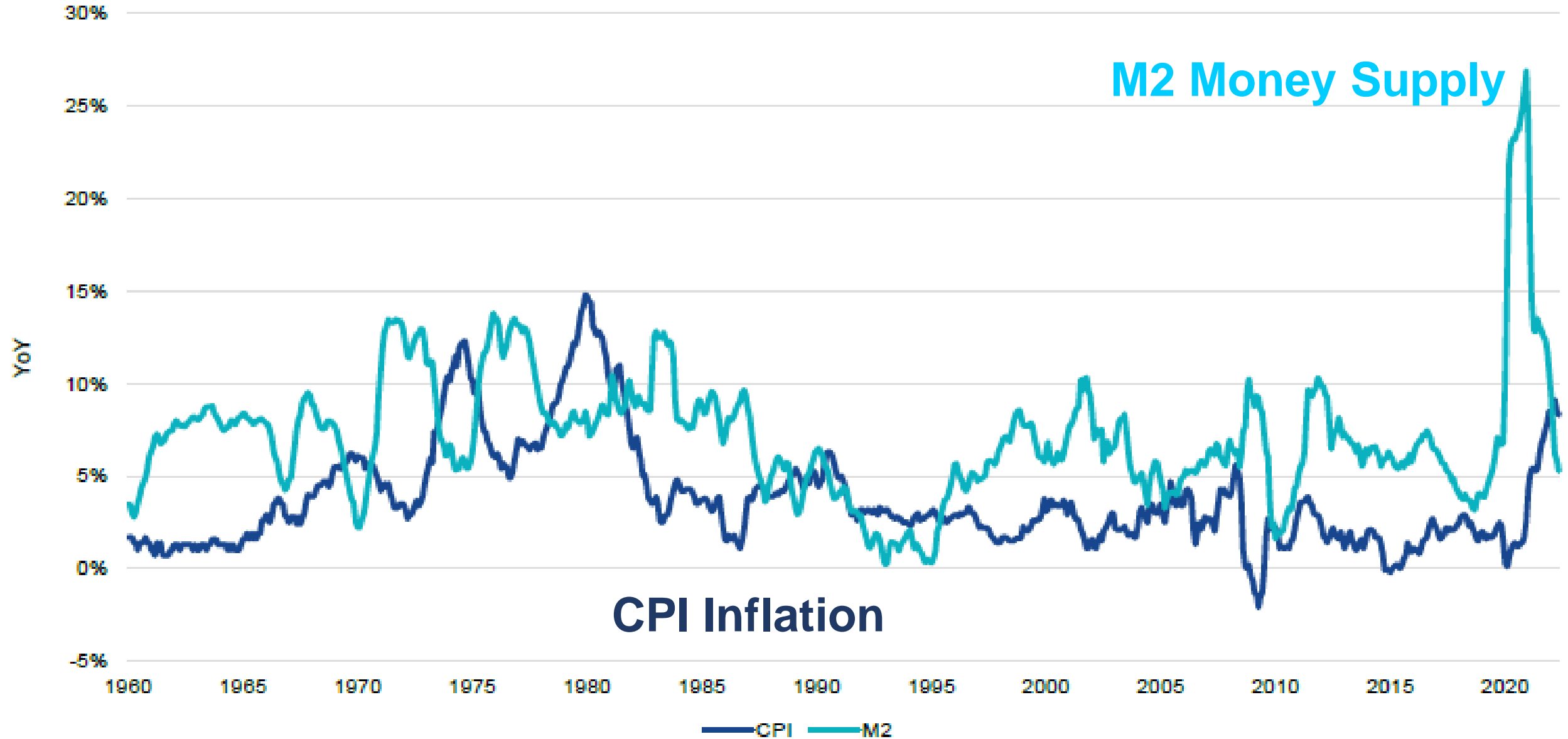
# CPI and core CPI

% change vs. prior year, seasonally adjusted

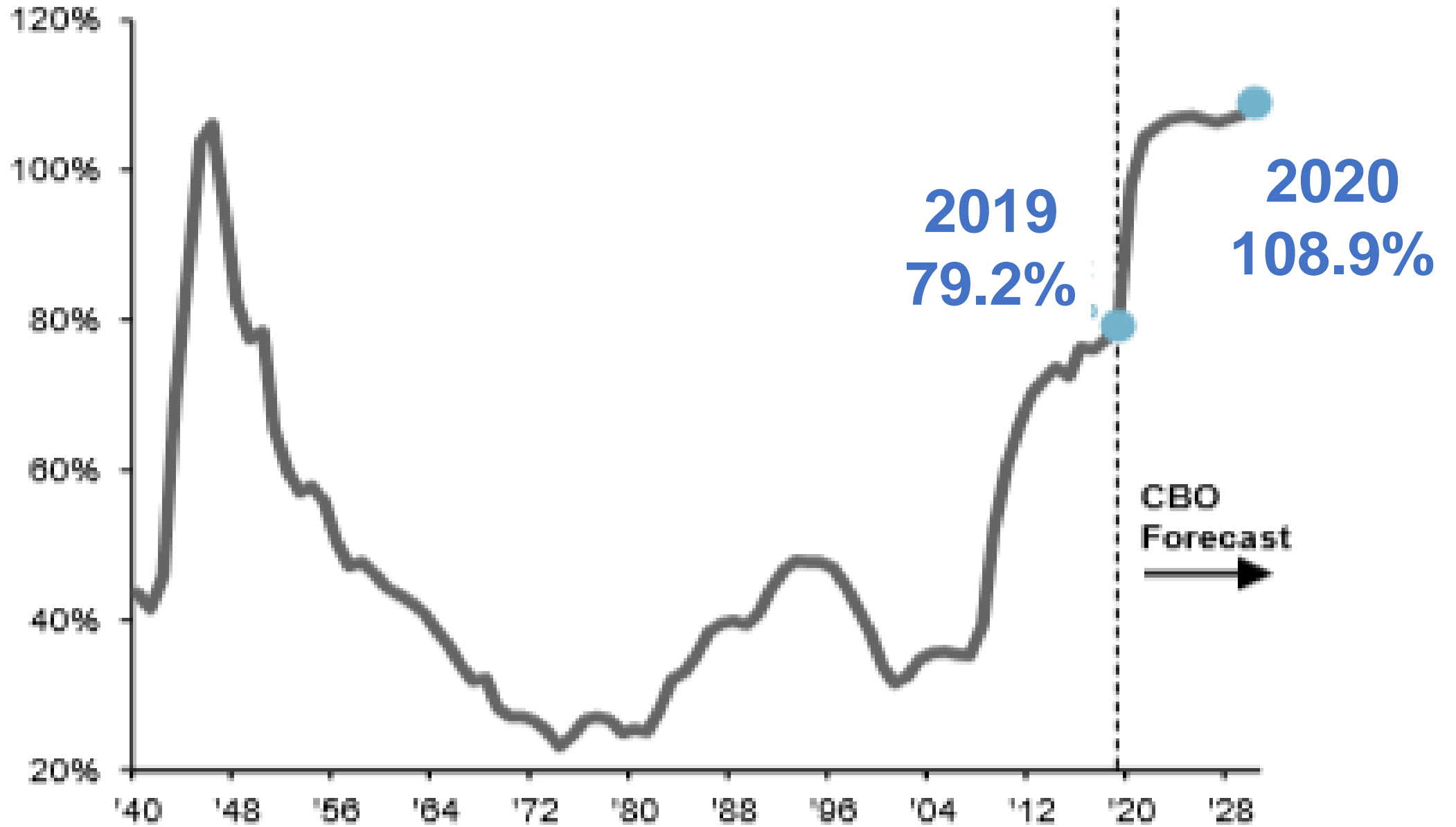


# Inflation and Money Supply

CPI vs. M2 Yearly Growth

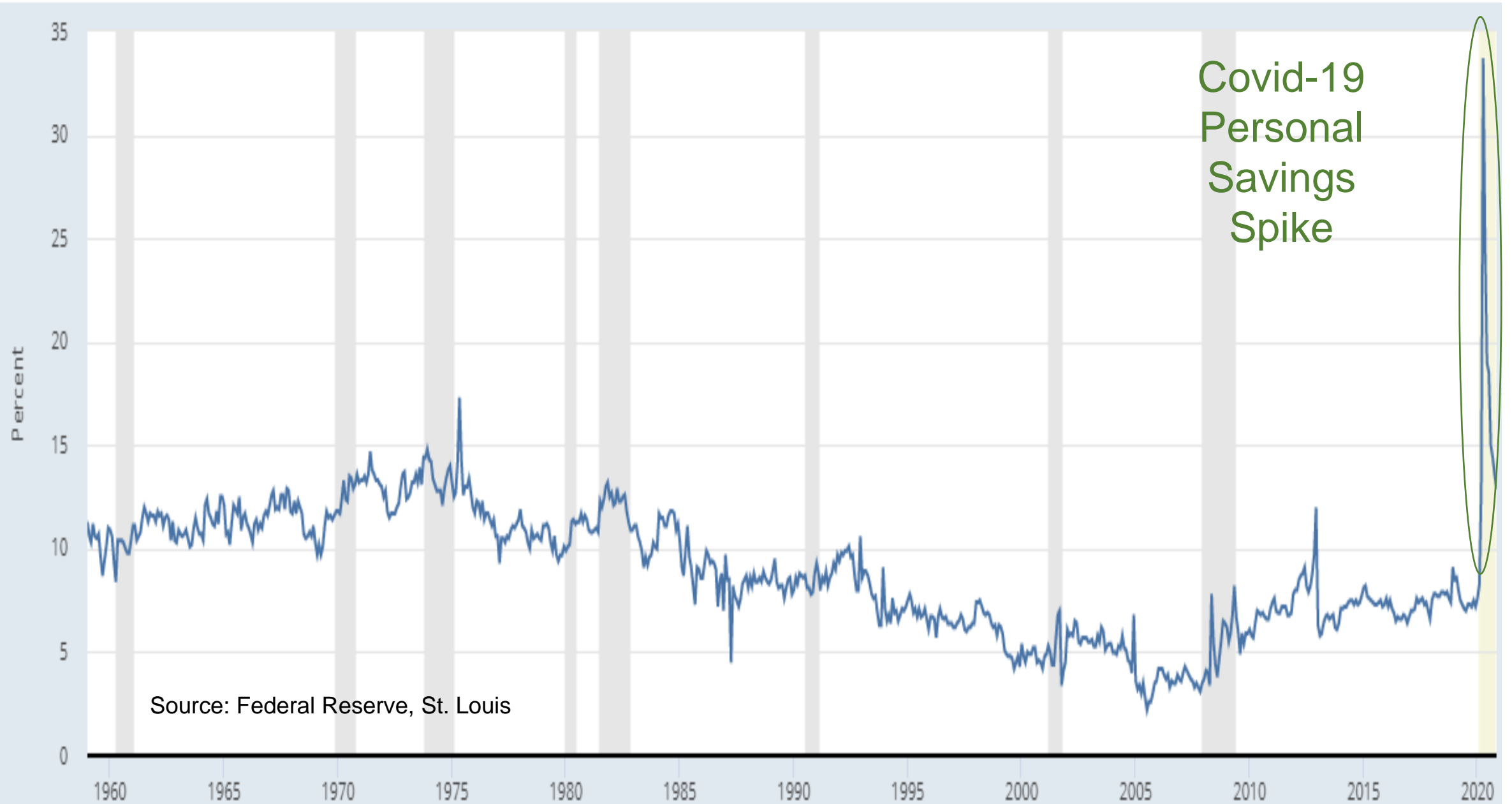


# Federal Debt, % of GDP, 1940-2030





# Personal Savings Rate



Source: Federal Reserve, St. Louis

Covid-19  
Personal  
Savings  
Spike

# Corporate Cash in the Bank



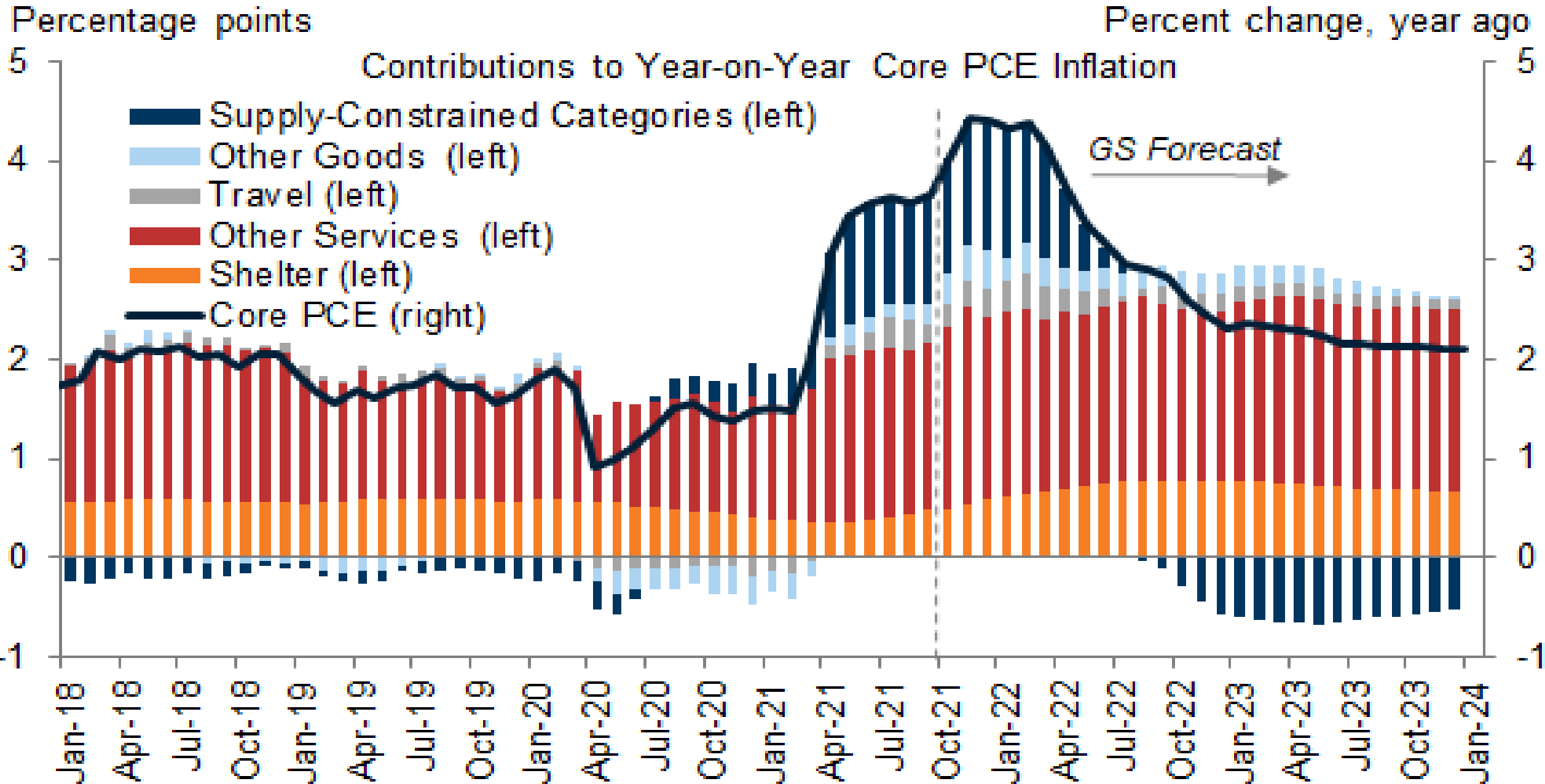
— Nonfinancial Corporate Business; Total Time and Savings Deposits; Asset, Level



## Federal Reserve Chair Jerome Powell - Fall 2021

Inflation will be transitory as it is concentrated in parts of the economy with supply chain bottlenecks. When the supply chain reopens, inflation will ass.

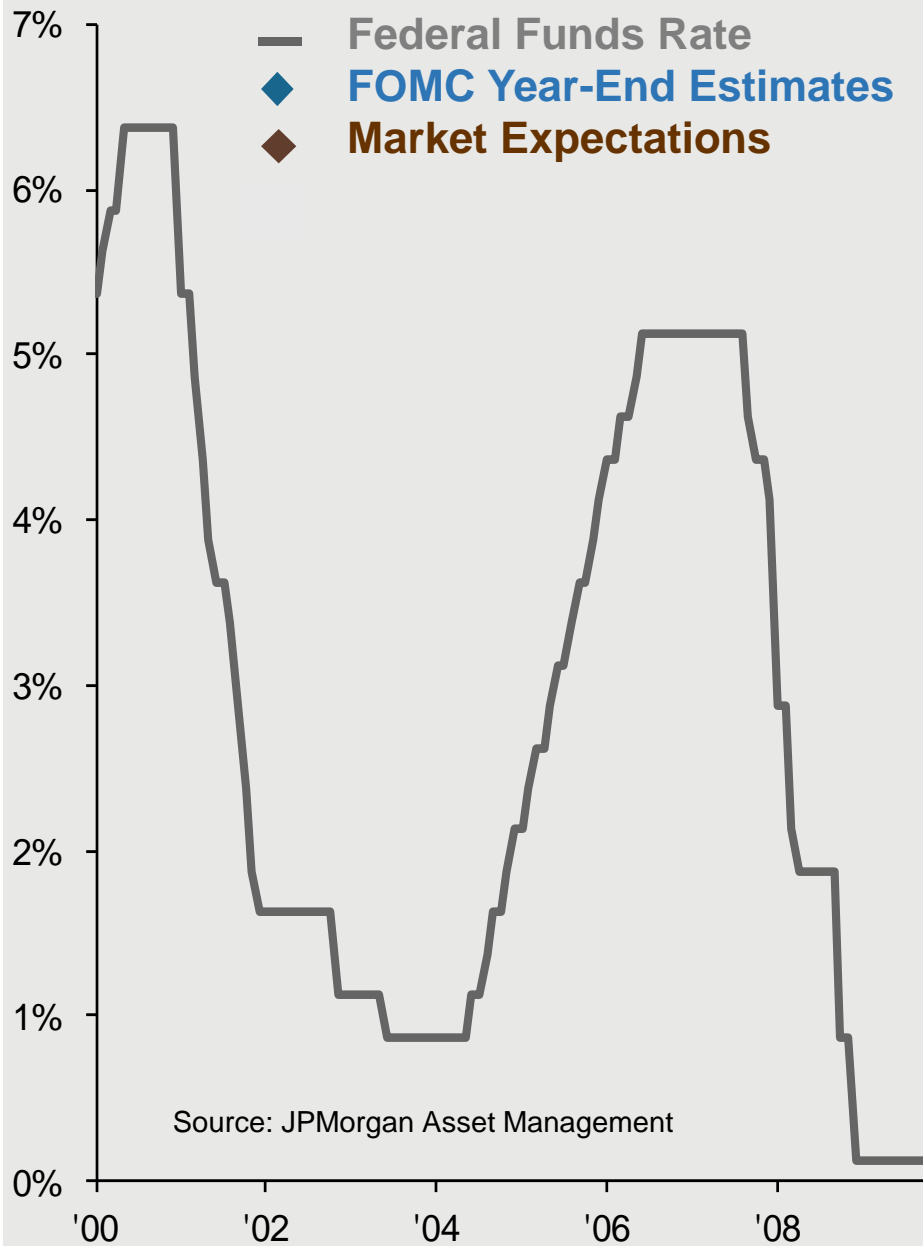
# Inflation Migrates Back Towards 2%



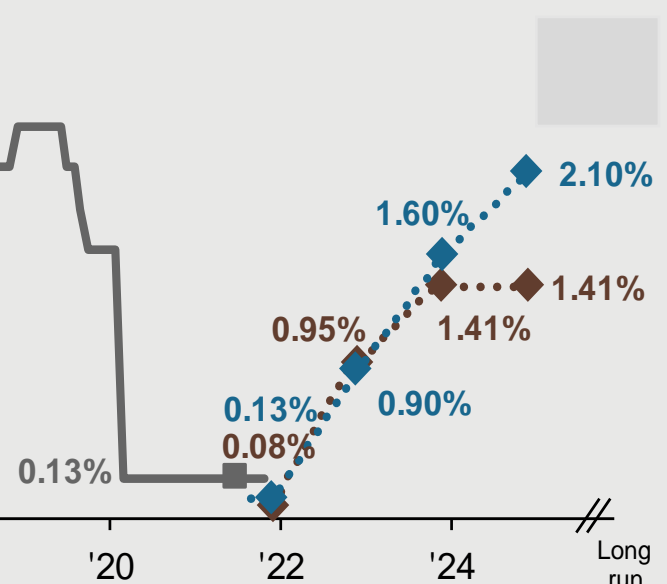
# Federal Funds Rate Expectations December 2021

**FOMC December 2021 forecasts**  
Percent

	2021	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	5.5	4.0	2.2	2.0	1.8
Unemployment rate, 4Q	4.3	3.5	3.5	3.5	4.0
Headline PCE inflation, 4Q to 4Q	5.3	2.6	2.3	2.1	2.0



Today: 3.7% - 4%  
Expected to Peak at about 5%



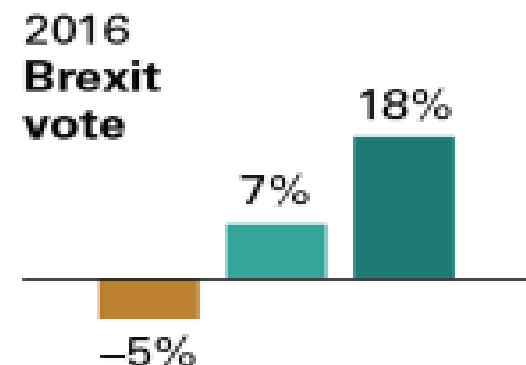
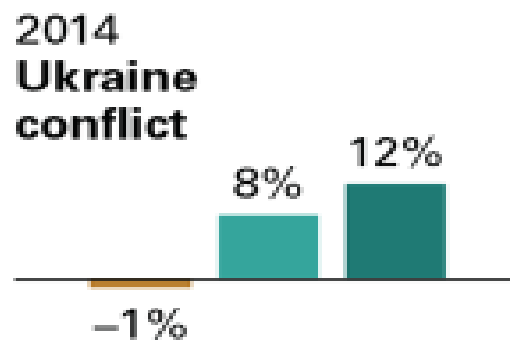
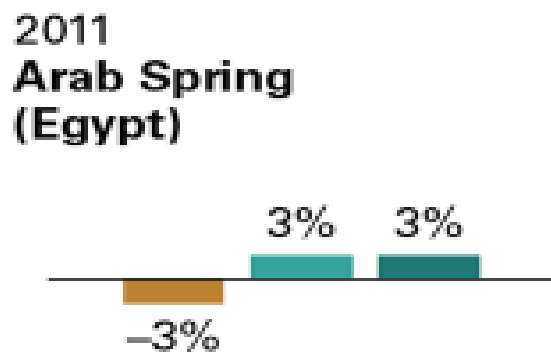
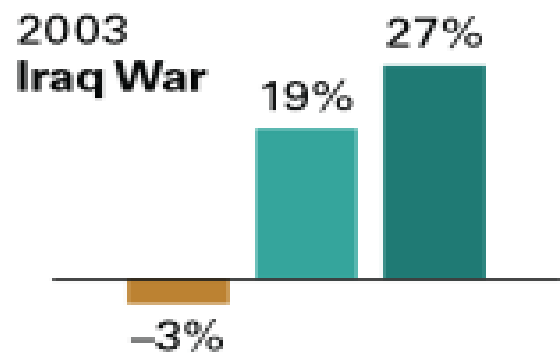
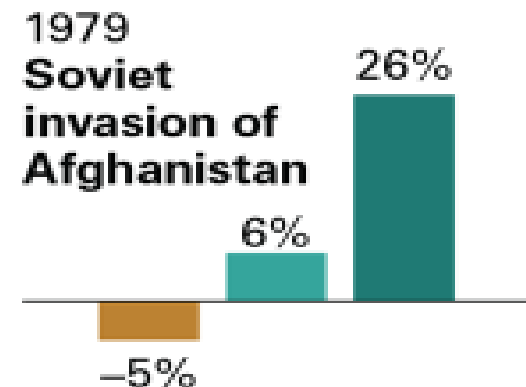
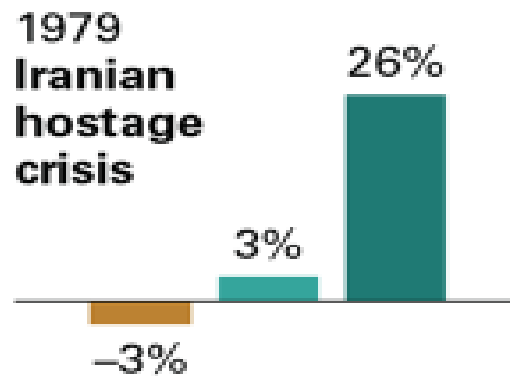
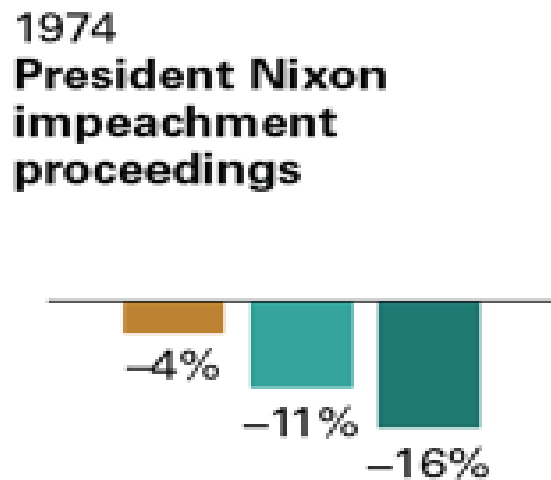
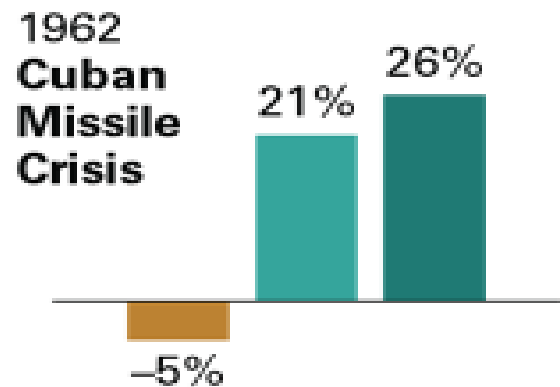
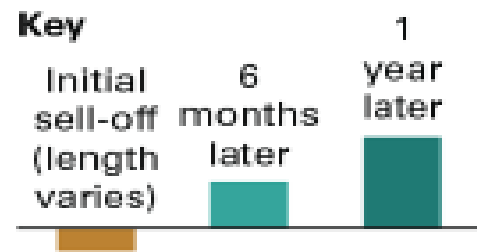
## Inflation Was Supposed to be Transitory

- Supply Chain was supposed to reopen faster than it did
- China was supposed to give up on Zero-Covid long ago
- Russia was not expected to invade Ukraine. Regional conflict typically does not last long.
- Filling the system with money just at a time when supply became constrained, the job market was exceptionally strong, excess cash in personal and business accounts was in the trillions of dollars and as the service economy went back to work in the wake of Covid proved to be incredibly inflationary.

# Geopolitical sell-offs are typically short-lived

**5%** Average total return  
6 months from event

**9%** Average total return  
1 year from event



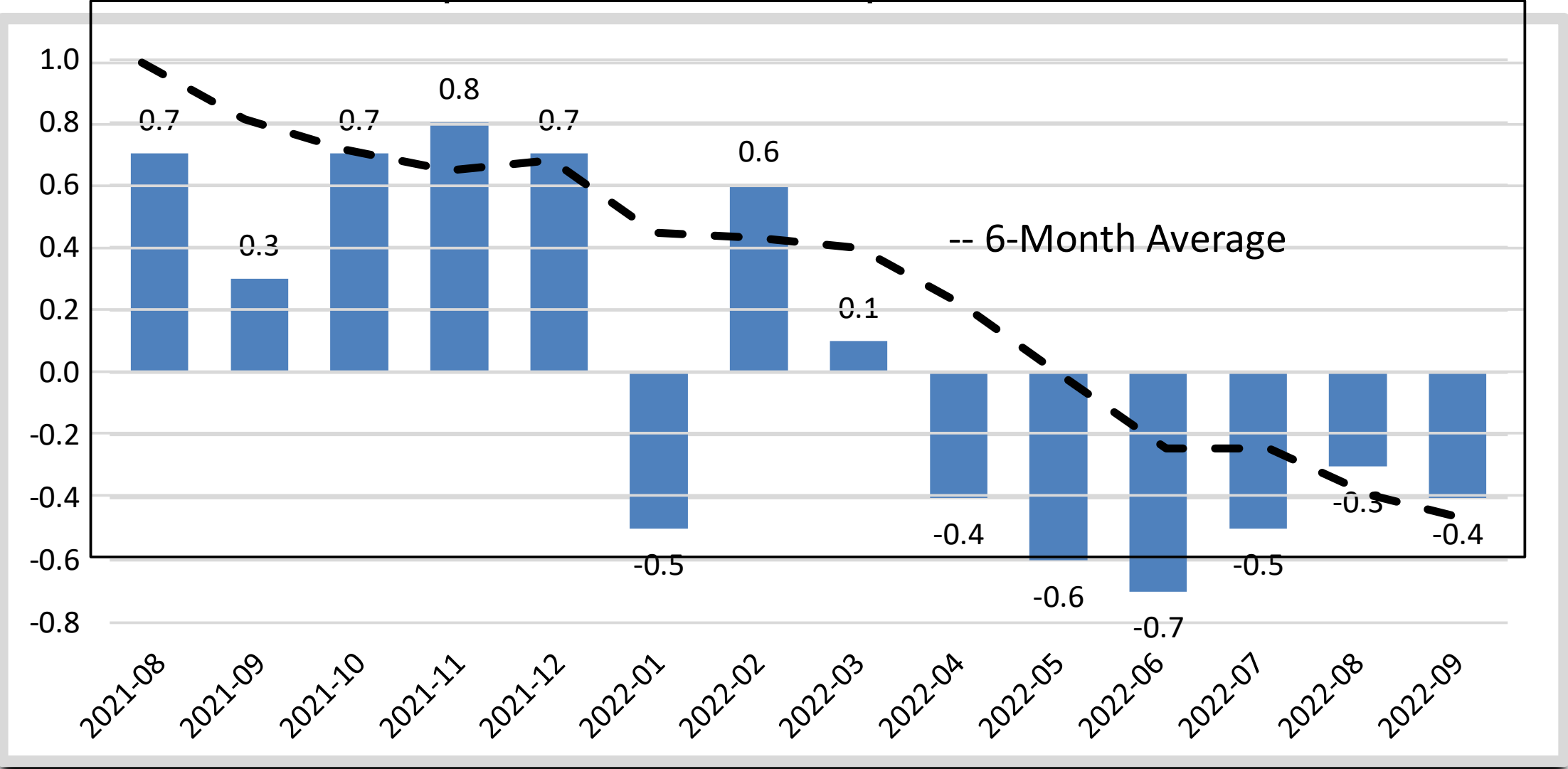
# S&P 500 YTD 2022





# Leading Economic Index % Change Monthly

September 2021 – September 2022



Source: The Conference Board – last update 10/20/2022

# Yield Curves Inverted

## 3-Month vs. 10-Year Treasury

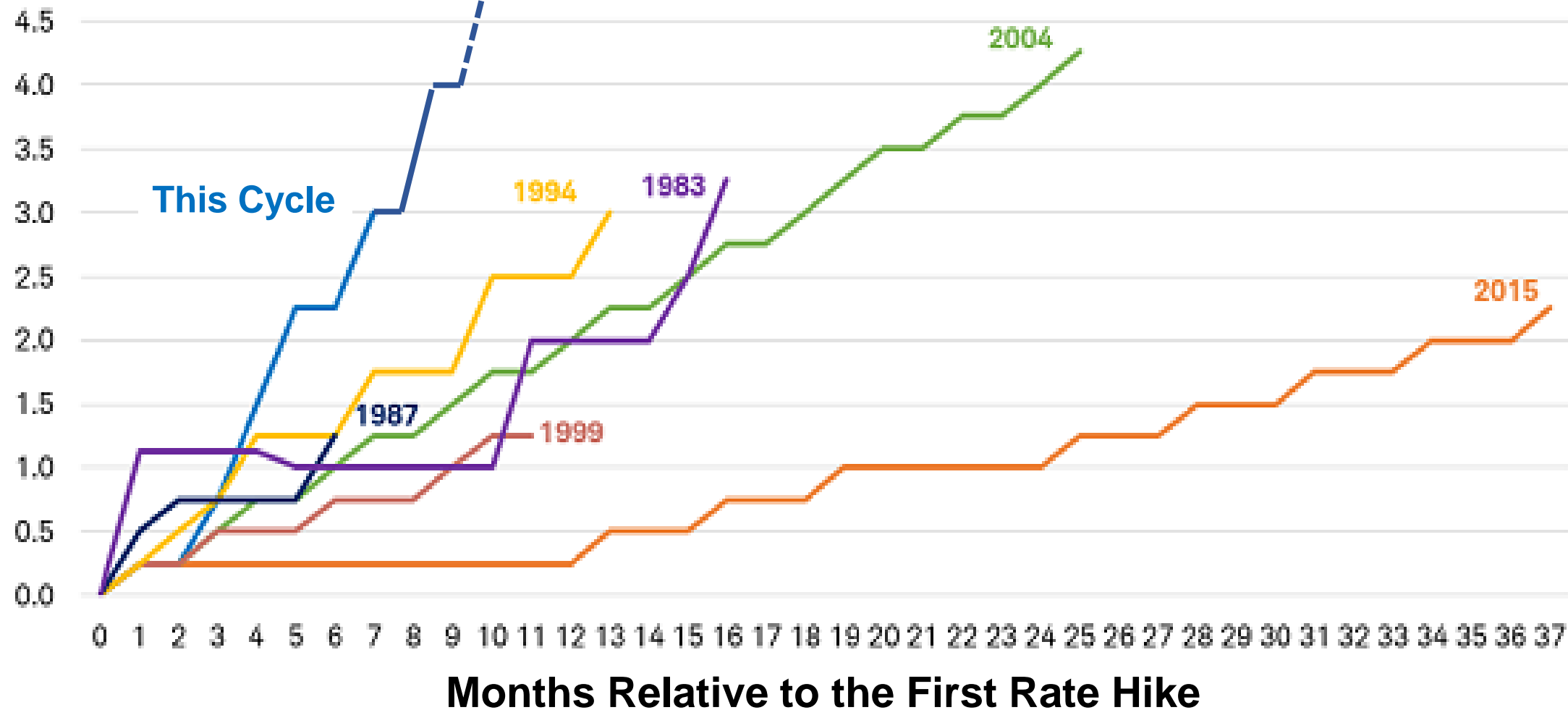


## 2-Year vs. 10-Year Treasury



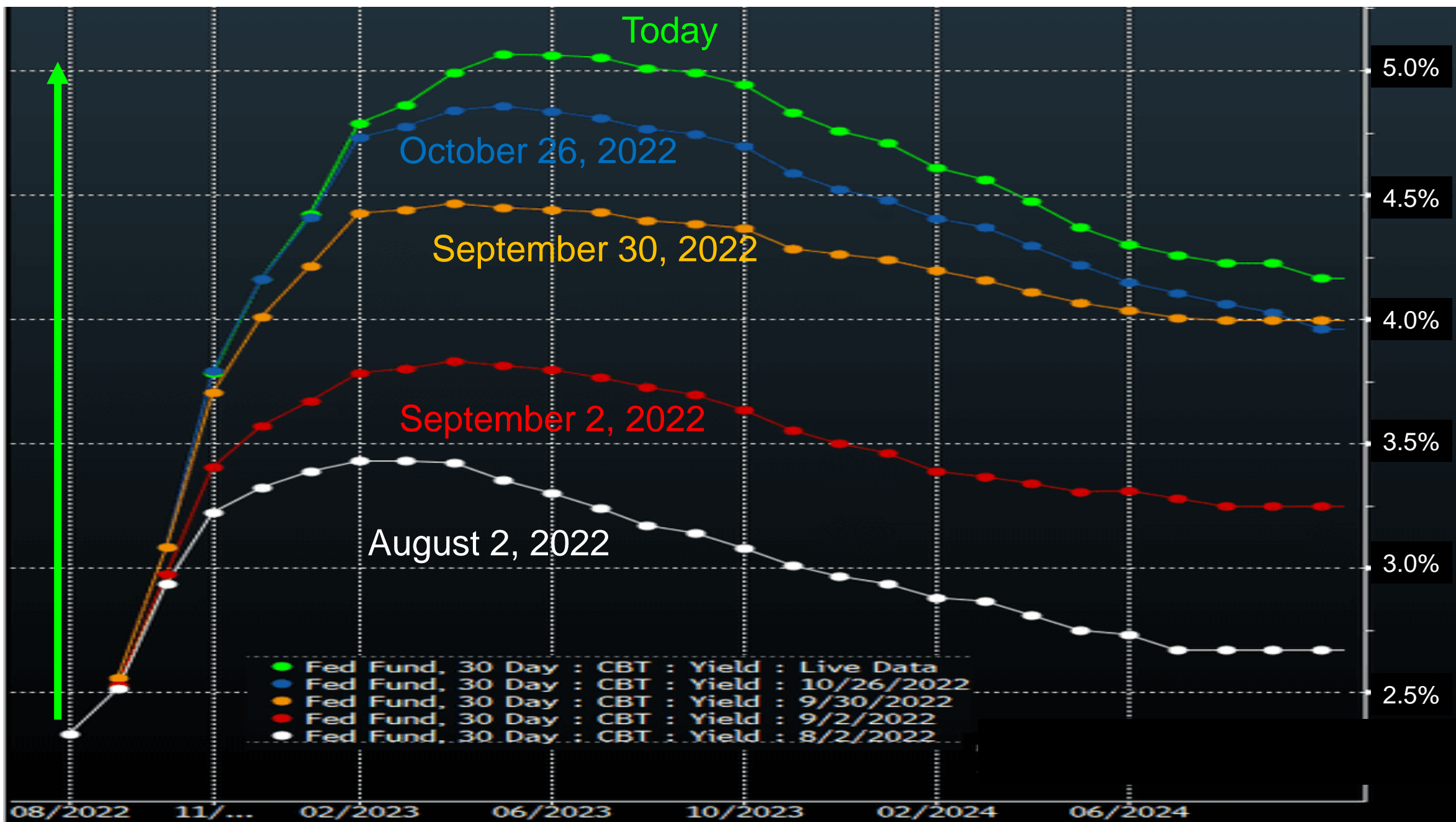
# Fed Funds Rising at Fastest Pace Ever

## Change in Fed Funds Rate %



Note: Data is short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. Source: Bloomberg, Federal Funds Target Rate – Upper Bound (FDTR Index), using monthly data.

# Rising Expectations For Terminal Fed Funds Rate



# Expectations for Q4 2022 Earnings Growth Rate Y/Y

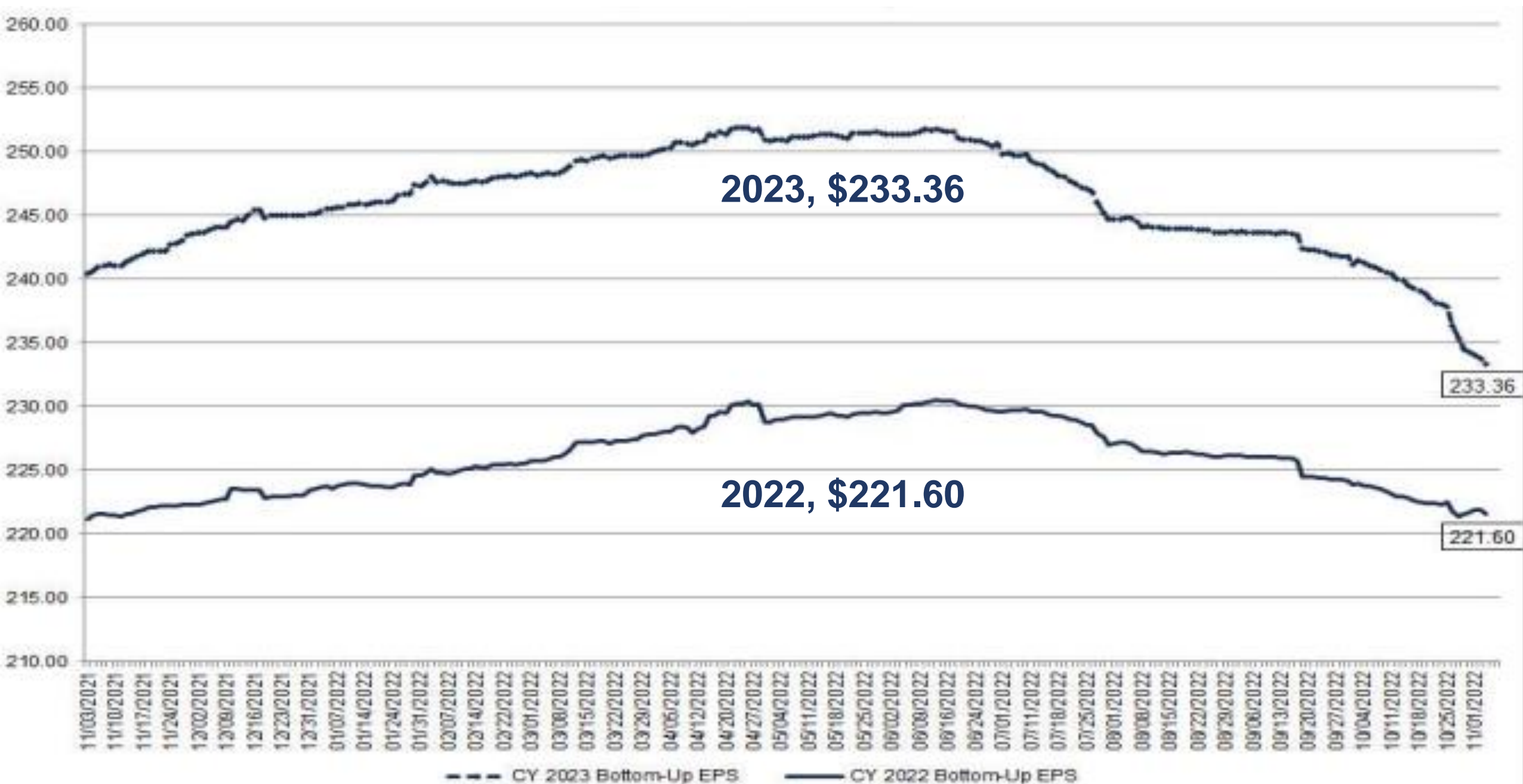


Q4 2022 Earnings Growth Rate Expectation

Source: FactSet

-1%

# S&P 500 CY 2022 and 2023 Earnings Expectations, FactSet



# Institutional Investors Survey

As of 11/01/2022

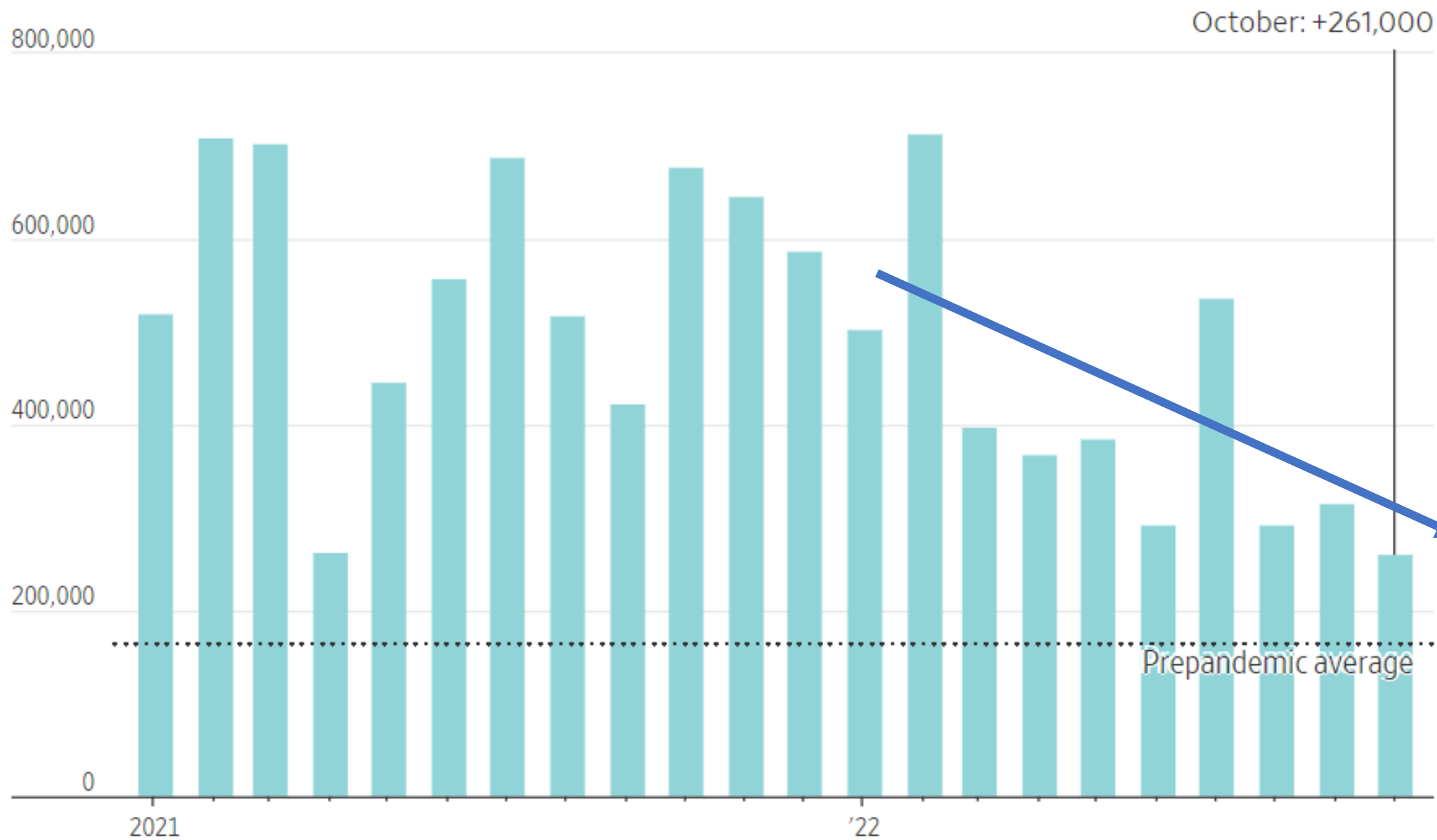
End of 2023

	<u>LOW</u>	<u>HIGH</u>
S&P 500 Earnings	\$170	\$220
S&P 500 Index	2500	4200

Peak Fed Funds Rate ~5%

Recession in Spring 2023

# Nonfarm payrolls, monthly change



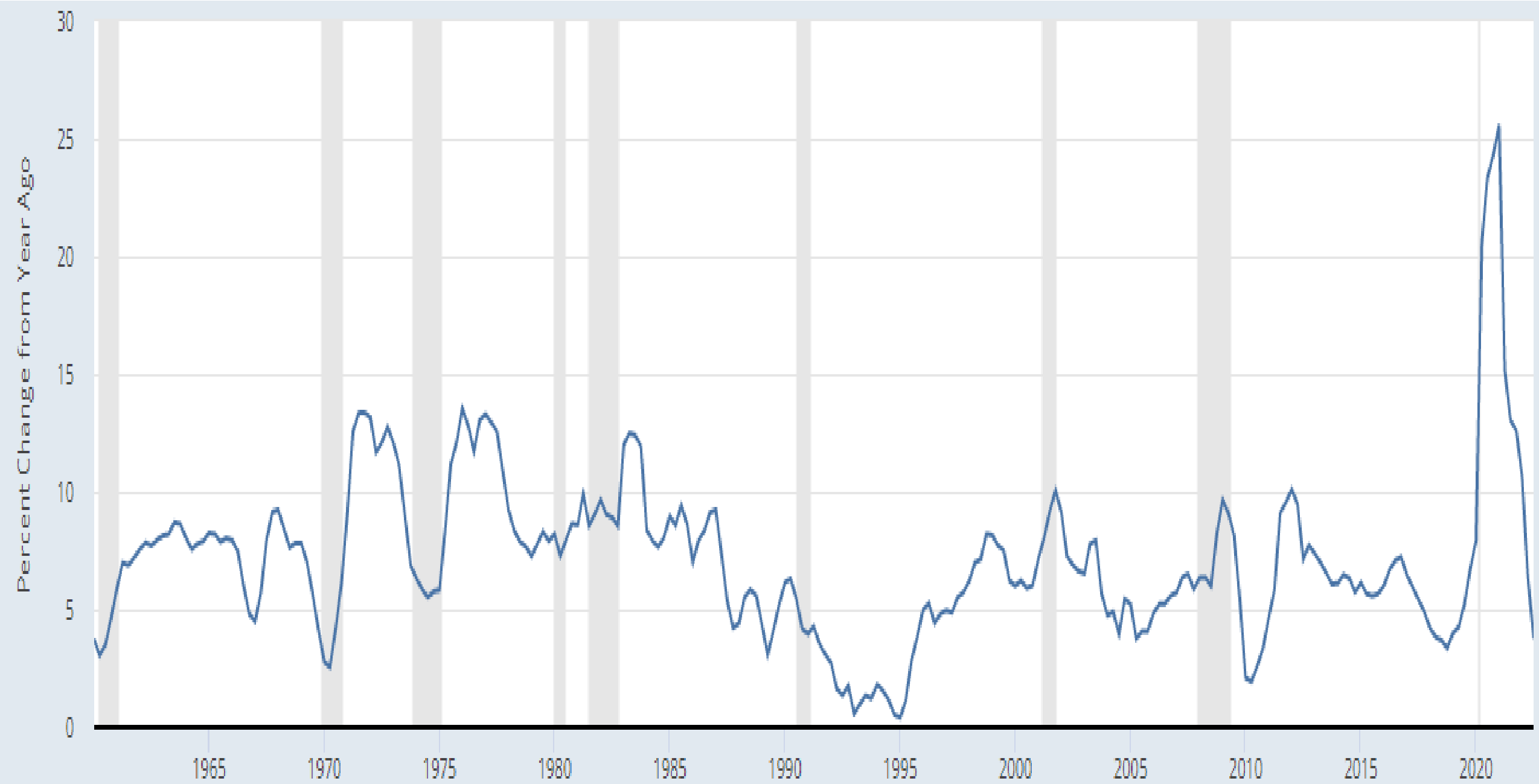
Note: The prepandemic average is the average monthly change in 2019. Data are seasonally adjusted.

Source: Labor Department



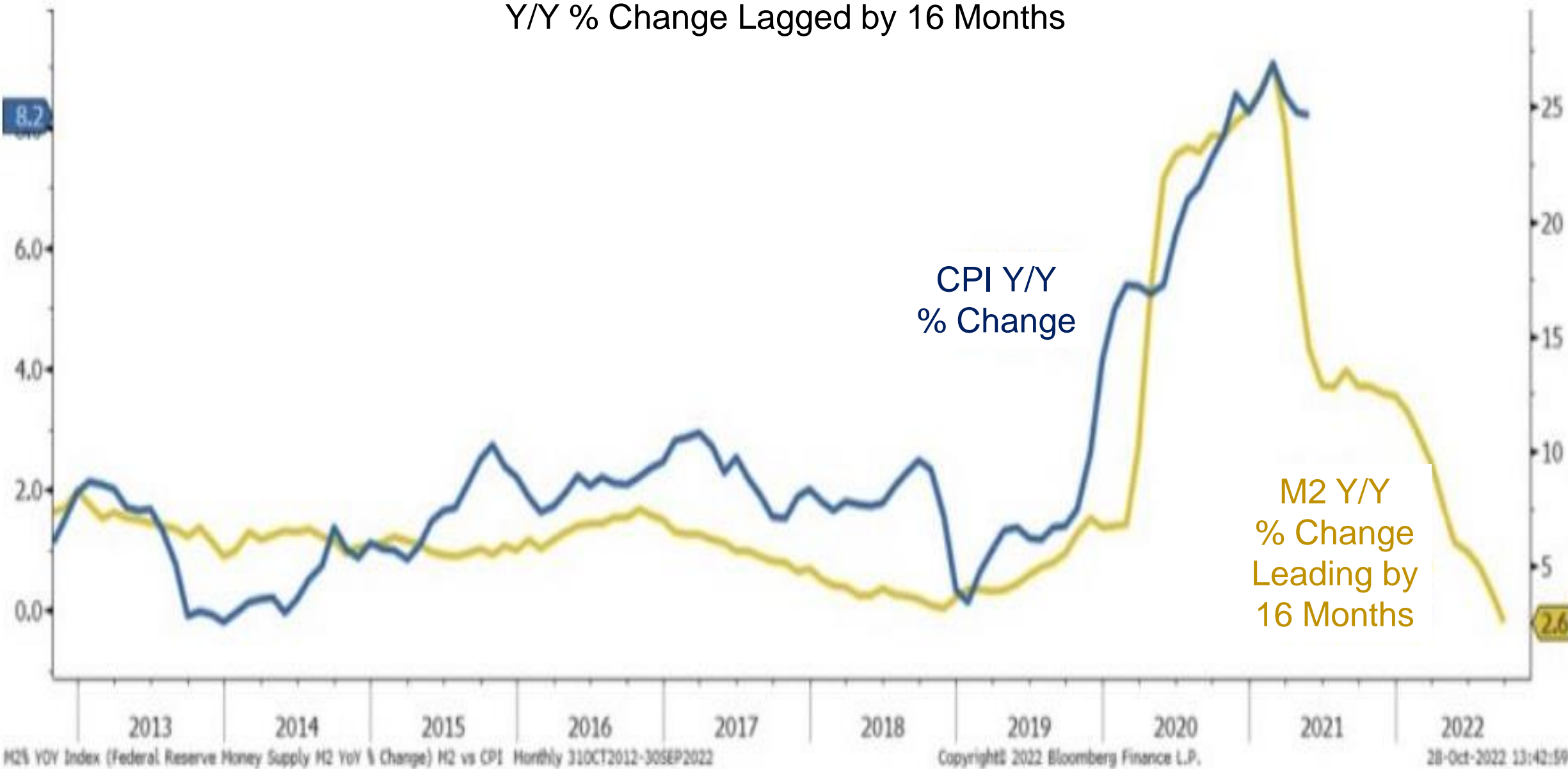
And Now For Some Good News

# M2 Money Supply Percent Change Year-Over-Year



# M2 Money Supply vs. CPI

Y/Y % Change Lagged by 16 Months



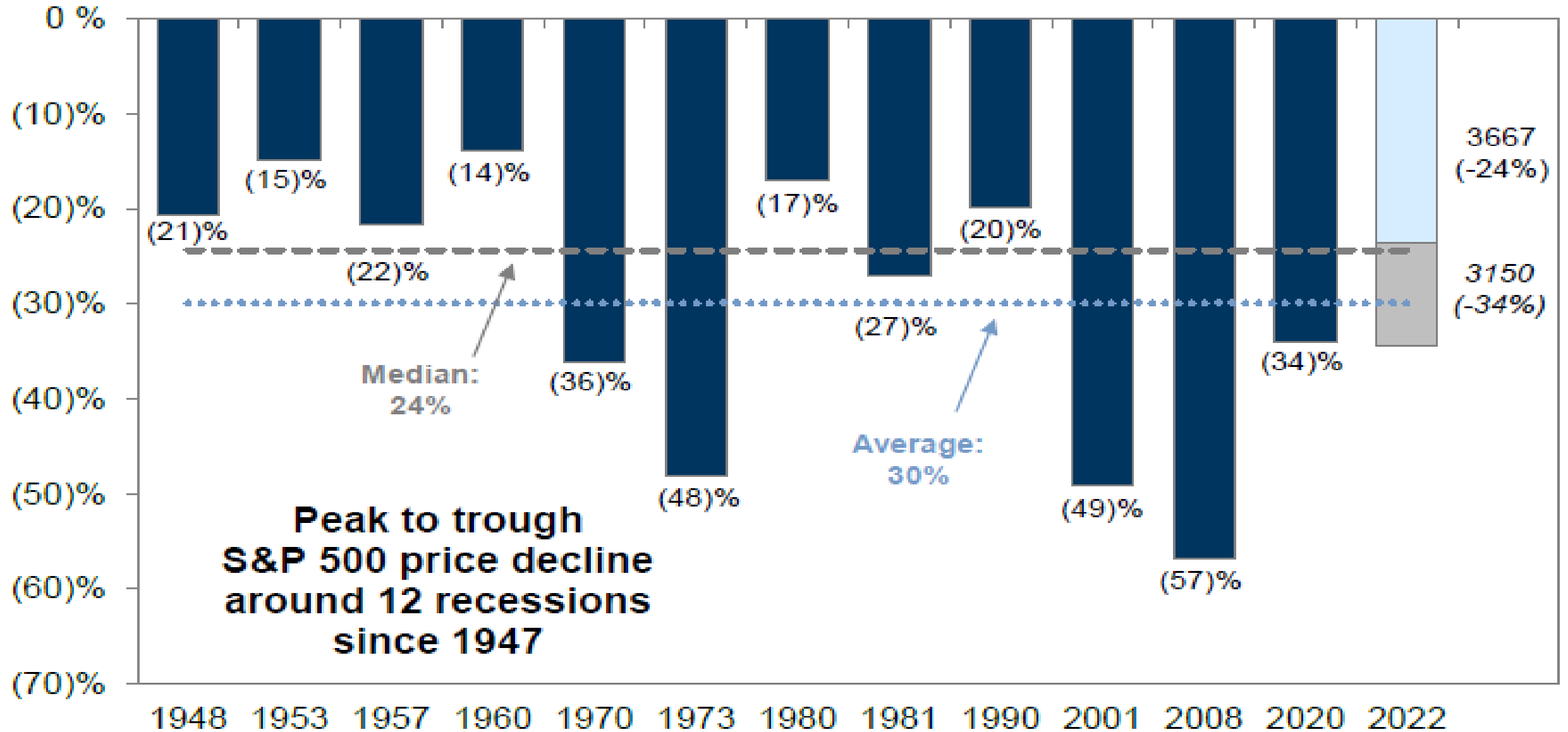
M2% YOY Index (Federal Reserve Money Supply M2 YoY % Change) M2 vs CPI Monthly 31OCT2012-30SEP2022

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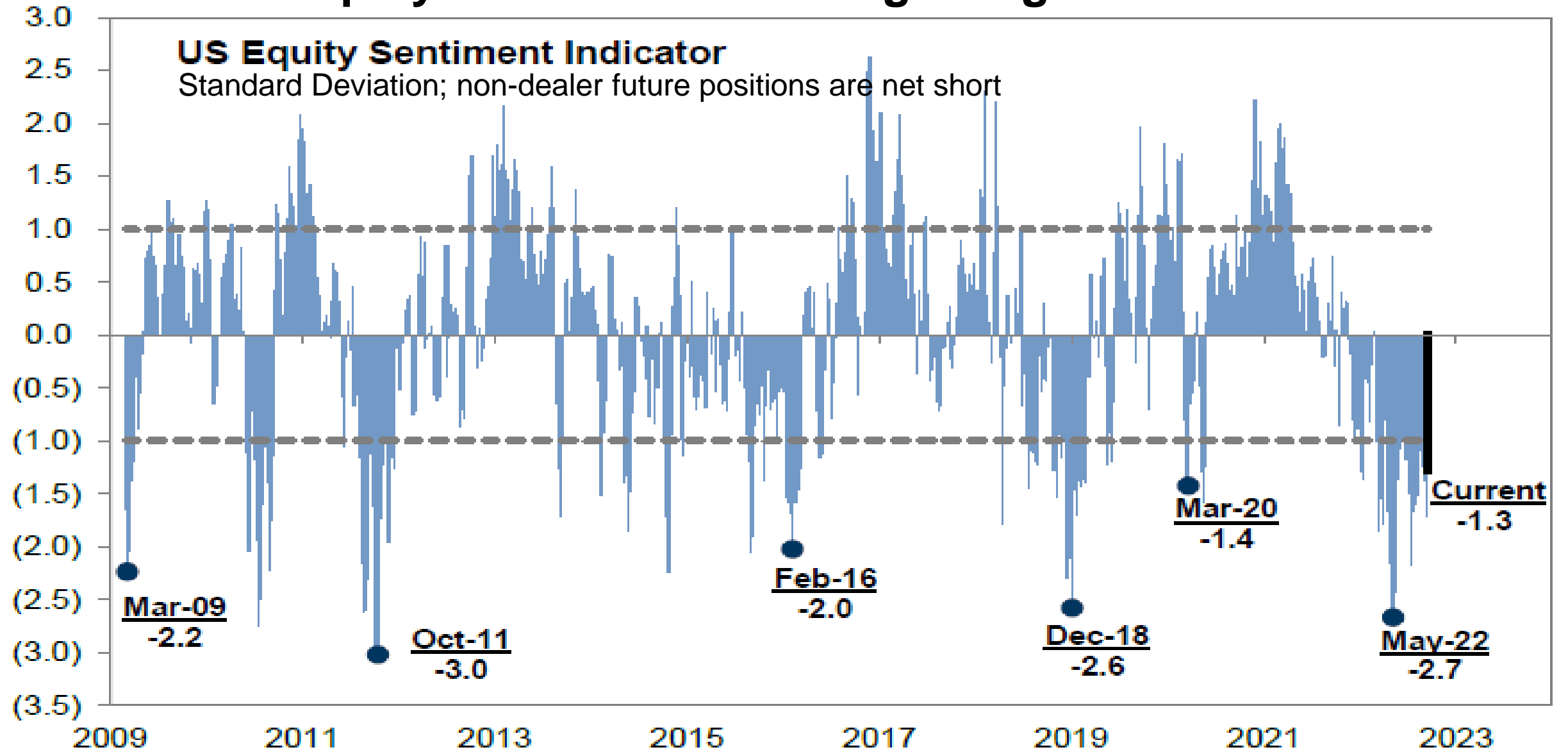
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Source: Bloomberg, Morgan Stanley Research

# Peak to Trough S&P 500 Declines in Recessions Since 1947



# Equity Investor Positioning is Light -- Bullish

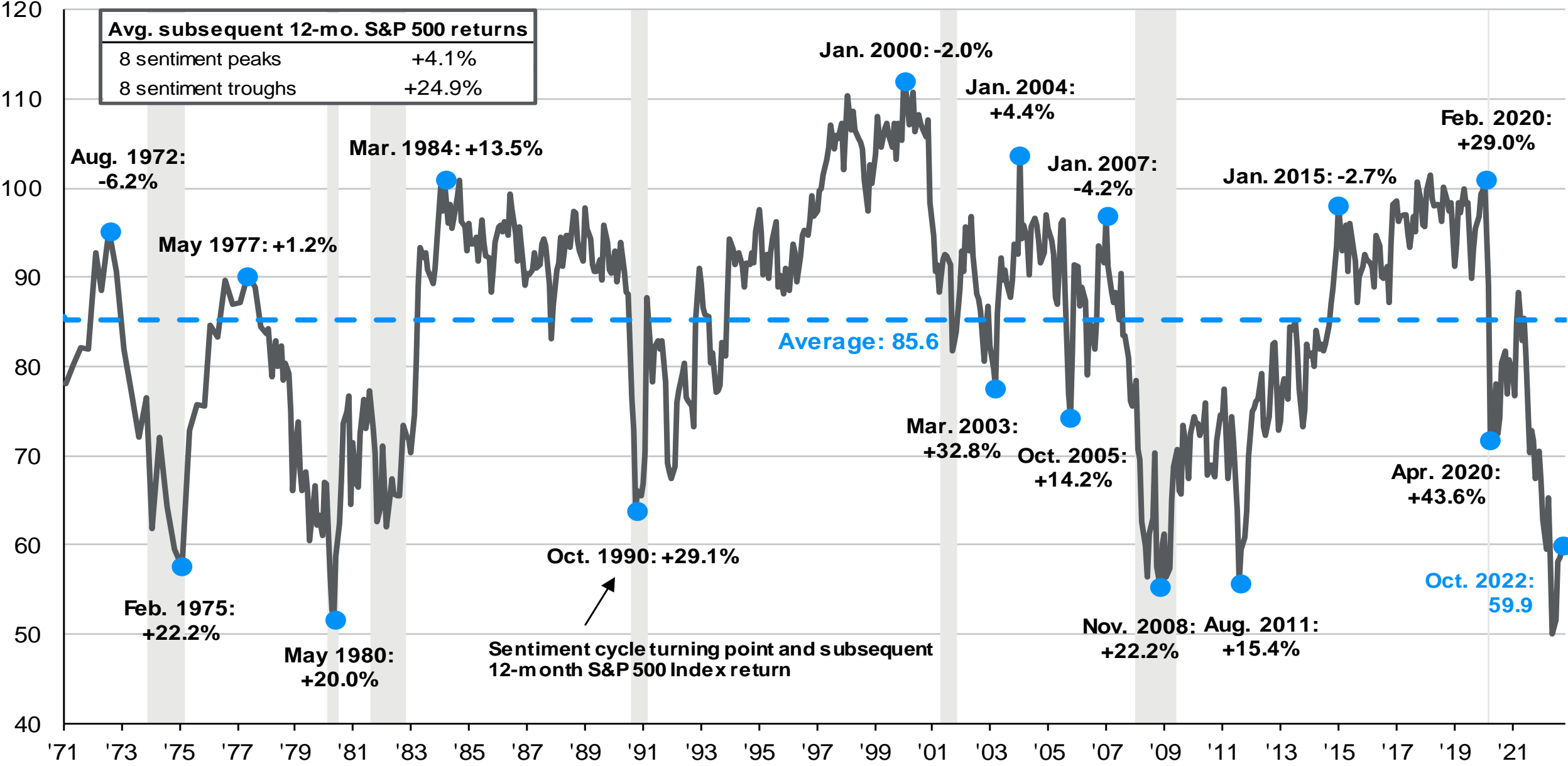


# Supply Chain Correcting – Vendor Lead Times mid-Atlantic



# Consumer Confidence and the Stock Market

## Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Year	Returns 6m following election	Returns 6-12m following election	Split govt	Fed	Recession
1950	16.8%	-0.5%		?	
1954	18.6%	12.3%	Yes	Hikes	
1958	12.0%	-0.8%	Yes	Hikes	
1962	19.0%	4.9%		Hikes	
1966	15.9%	-2.6%		Cuts	
1970	23.2%	-8.6%	Yes	Cuts	Yes
1974	18.0%	0.6%	Yes	Cuts	Yes
1978	5.7%	0.7%		Hikes	
1982	18.1%	1.5%	Yes	Cuts	Yes
1986	20.0%	-15.7%	Yes	On hold	
1990	21.1%	3.4%	Yes	Cuts	Yes
1994	12.4%	13.0%	Yes	Hikes	
1998	19.9%	1.7%	Yes	On hold	
2002	2.1%	12.6%		Cuts	
2006	9.0%	-2.1%	Yes	On hold	
2010	13.7%	-8.8%	Yes	On hold	
2014	3.8%	0.6%	Yes	On hold	
2018	4.7%	6.7%	Yes	Hikes	
2022				Hikes	

## 6-Month Performance

# Up-Dn = **18-0**

Avg % Chg = **15.18%**

Med % Chg = **16.23%**

From 11/8 close: up 3.8%

## 12-Month Performance

# Up-Dn = **11-7**

Avg % Chg = 1.05%



# S&P 500 Total Returns Following 25% Drawdown (%)

25% Drawdown Period	Peak-to-Trough Drawdown	1-Year	3-Year	5-Year	10-Year
Dec 1961-Jun 1962	-28	34	70	100	178
Nov 1968-Apr 1970	-36	35	47	28	100
Jan 1973-Apr 1974	-48	1	23	44	189
Nov 1980-Aug 1982	-27	61	108	272	485
Aug 1987-Oct 1987	-34	28	55	119	471
Mar 2000-Mar 2001	-49	2	1	24	37
Oct 2007-Sep 2008	-57	-5	11	65	209
Feb 2020-Mar 2020	-34	62	-	-	-
Jan 2022-Sep 2022	-25	-	-	-	-
<b>Average</b>	<b>-38</b>	<b>27</b>	<b>45</b>	<b>93</b>	<b>238</b>

**HY CREDIT DEFAULTS** – There were zero new defaults or distressed transactions in Oct; first time since 2018.

HY bond default rate is 1.59% vs. 3.2% long-term average. Recovery rates remain at record highs,

~56.5% vs. the 25-year average of 39.9%. I flag as several investors have expressed concerns about risk markets cracking and so far, it's not in Credit. 11/2

# Highest Interest Coverage Ratio Since 1967



■ Recession

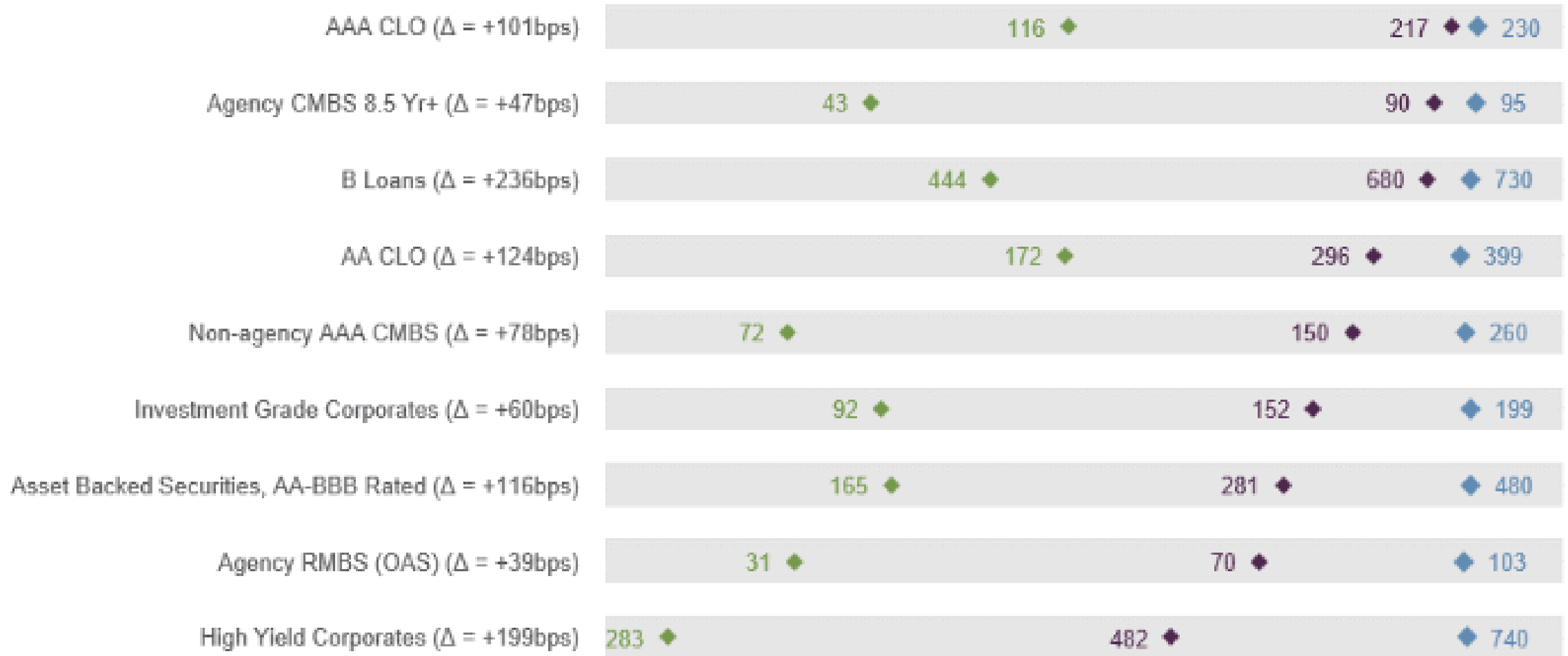
— Interest Coverage

— Interest Payments

# Spread Levels by Sector Versus Historical Tights

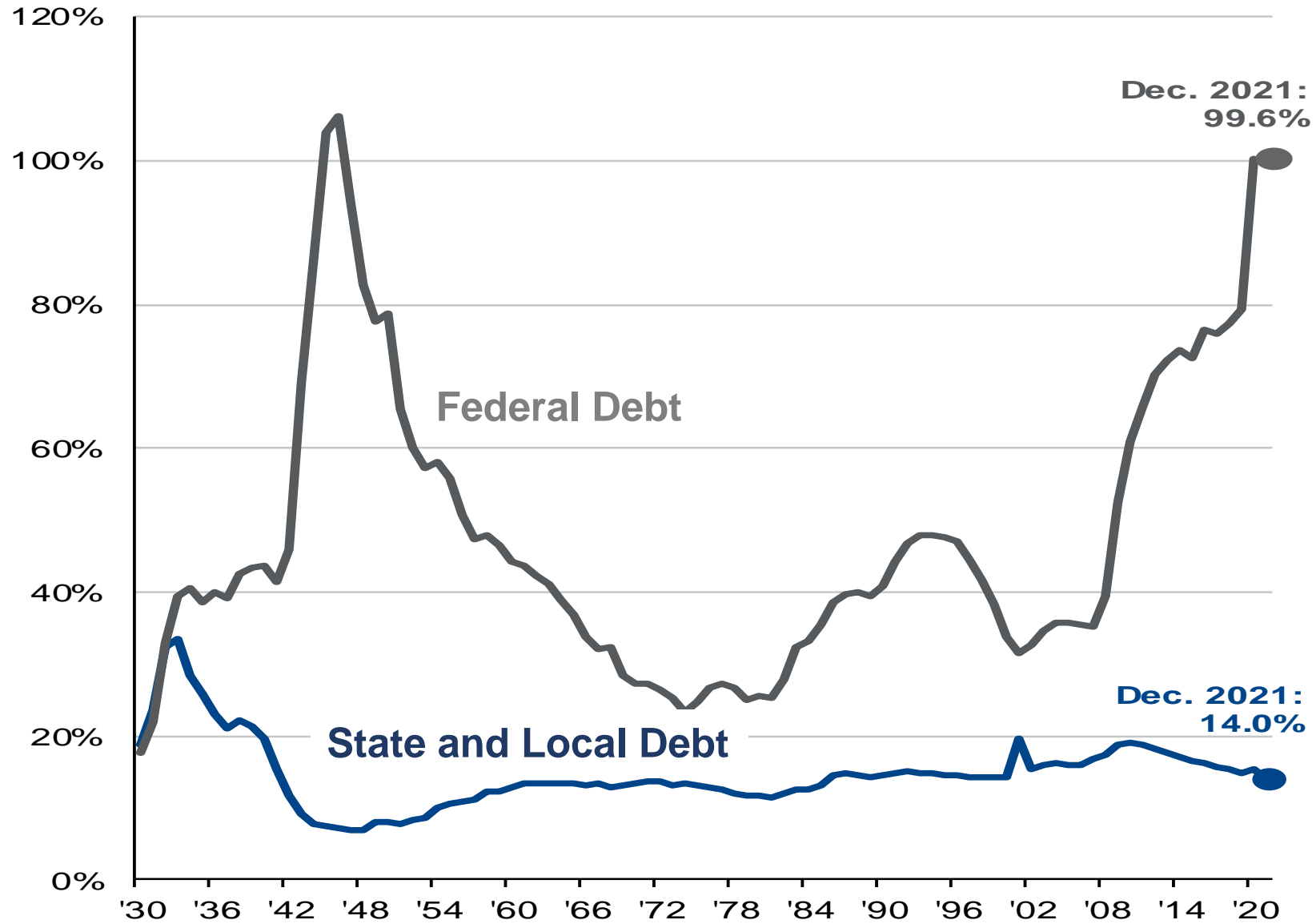
◆ 95<sup>th</sup> Percentile    
 ◆ 12/31/2021    
 ◆ Latest

0%    10%    20%    30%    40%    50%    60%    70%    80%    90%    100%

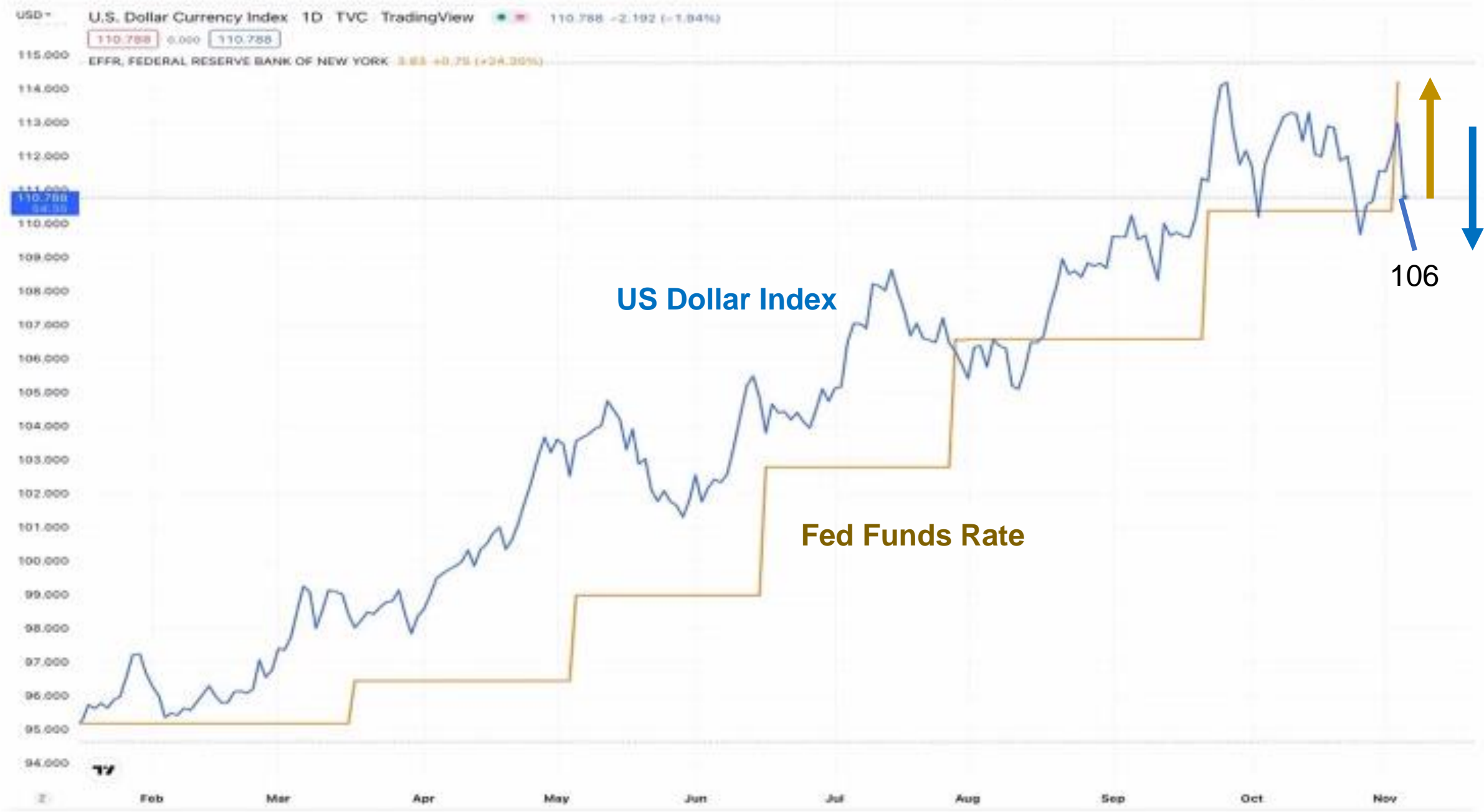


# State, Local and Federal Net Debt

1930 – 2021 % GDP



# Has the DXY (Dollar index) peaked out? 110 is an imp level – leading indicator



# Implications of Weaker Dollar

- 60% of IT revenue come from overseas. Positive for the NASDAQ.
- Positive for commodities
- Positive for emerging markets. China coming out of zero Covid and trading below book value.

## 1973-1974 Reference Point

Fed policy had tightened through 1973/74 in response to inflation, oil shocks...Fed funds 5.5% to 13%

Fed first cut July 1974 as GDP turned negative

Fed sustained pivot began Dec'74 as Fed funds dropped from 9.25% to 4.75% despite inflation being 12%

- 1) GDP turned deeply negative,
- 2) stock market losses from high reached 40%, and
- 3) unemployment rate climbed from 5.6% to 6.6% in month of Dec'74

Following 12-months S&P500 rose 31%



# Investment Concepts For Discussion Only

Defined Outcome ETFs: Innovator and First Trust

example: BNOV; 30% Cap, 9% buffer

PNOV; 21% Cap, 14.5% buffer

JEPI and JEPQ: Stock portfolios with ~12% and 15% yield

High Yield Municipal Bonds

example: HIMYX

Commodities:

example: FFGIX, NBCM

Diversified Equities: RSP, NASDAQ 100

Investing in stock and fixed income securities involves the risk of loss. Past performance is not an indication of future performance. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein.

# Commodities are extremely cheap – Ratio $\sim 0.90$

GSCI Commodity Index/S&P 500 ratio



ANTILOOP HEDGE

[Commodities - Live Quote Price Trading Data \(tradingeconomics.com\)](https://tradingeconomics.com)

One EV battery contains

25 pounds of lithium

60 pounds of nickel

44 pounds of manganese

30 pounds of cobalt

200 pounds of copper

400 pounds of aluminum, steel and plastic

Metal mining companies need to process

25,000 pounds of brine for the lithium

30,000 pounds of ore for the cobalt

5,000 pounds of ore for the nickel

25,000 pounds of ore for the copper

The process is extremely energy and metal intensive

T S HIMYX

+ Study Draw Monthly Contract Time Range Settings

HIMYX O:5.89 H:5.89 L:5.89 C:5.89 ▼-0.01  
MA(200.0) M:7.13 MA(75.0) M:7.11 MA(50.0) M:7.11 11/1/22



RSP ▼ 0:145.18 H:146.10 L:144.74 C:145.63 ▲ 0.94  
MA(200.0) ▼ M:144.79 MA(75.0) ▼ M:139.43 MA(50.0) ▼ M:135.75 11/11/22

# Equal Weight S&P 500 RSP, -11% YTD



QQQ ▼ 0:282.56 H:286.42 L:281.19 C:286.31 ▲ 3.56  
MA(200.0) ▼ M:310.27 MA(75.0) ▼ M:291.84 MA(50.0) ▼ M:278.69 11/11/22

# NASDAQ 100 QQQ, -28% YTD



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Important disclosure: Past performance does not guarantee future results. Investment strategies offer risk that could result in a loss of principal which the client will bear. Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.



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