

D E L T A
I N V E S T M E N T
M A N A G E M E N T

AAII

2022 Bear Market That No One Saw Coming



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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.

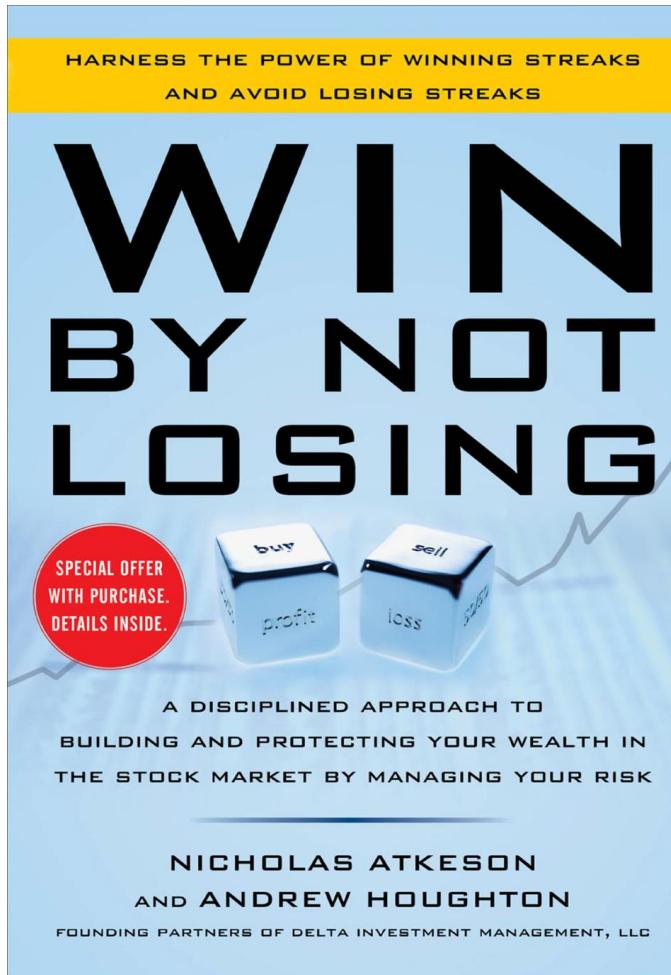
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Delta Investment Philosophy

- ❖ *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*

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The Hidden Risks of “Safe” Assets

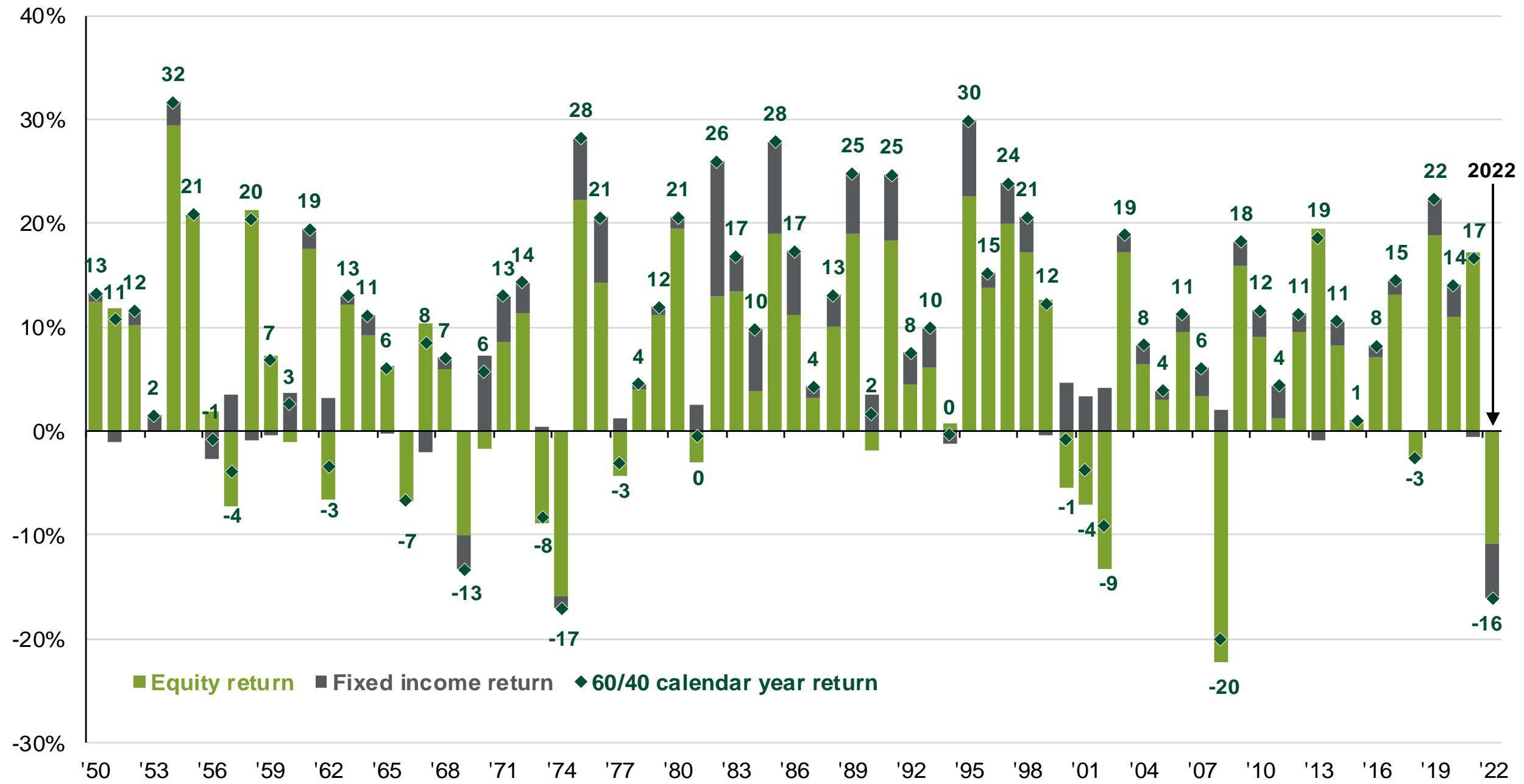
April 6, 2018

Dear Nick,

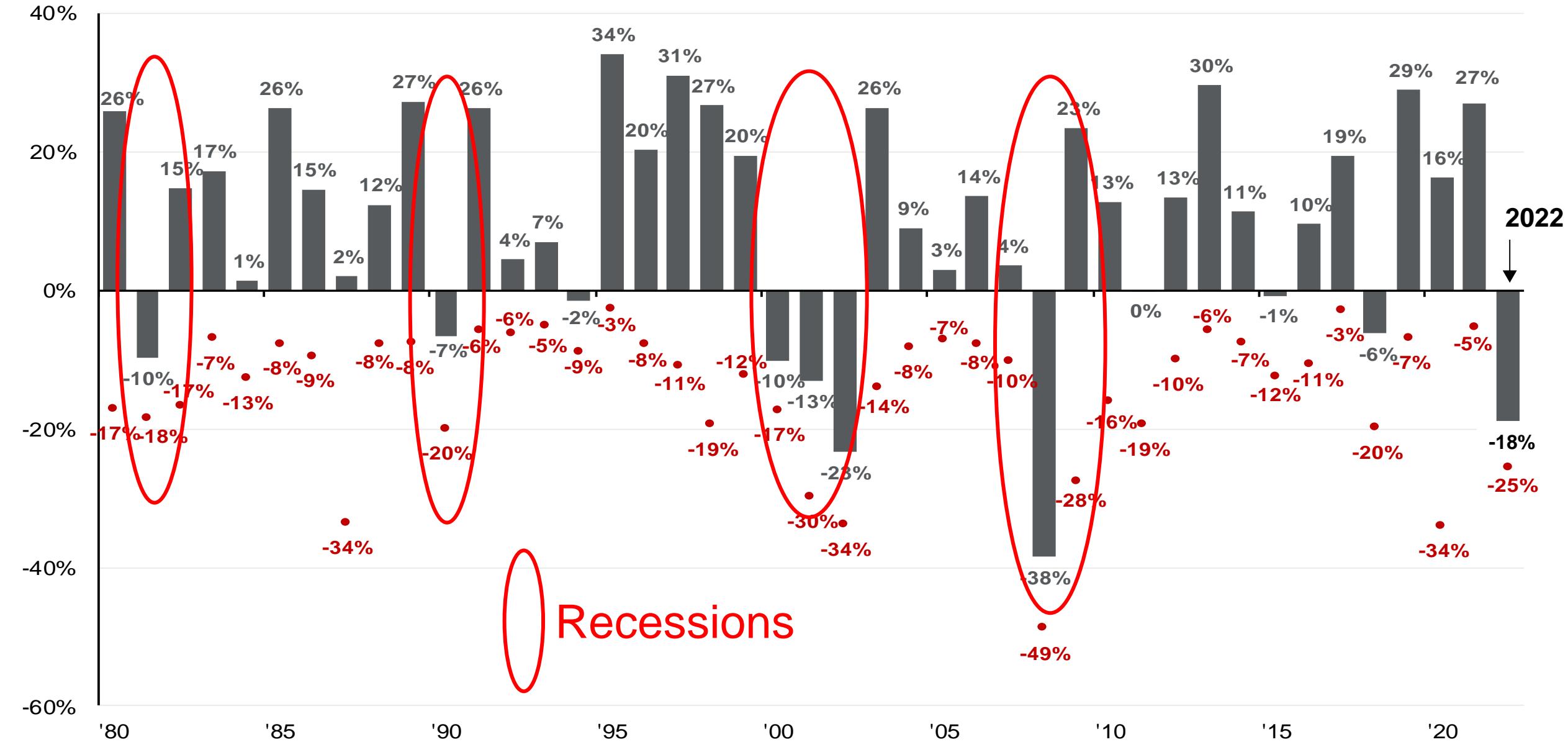
Money managers often advise clients who would like more safety in their portfolios to increase the weighting of bonds versus stocks. Historically, bonds have experienced lower volatility than stocks. Volatility (standard deviation) is one way risk is measured in finance.

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MANAGEMENT

60/40 Annual Returns, 1950 - 2022

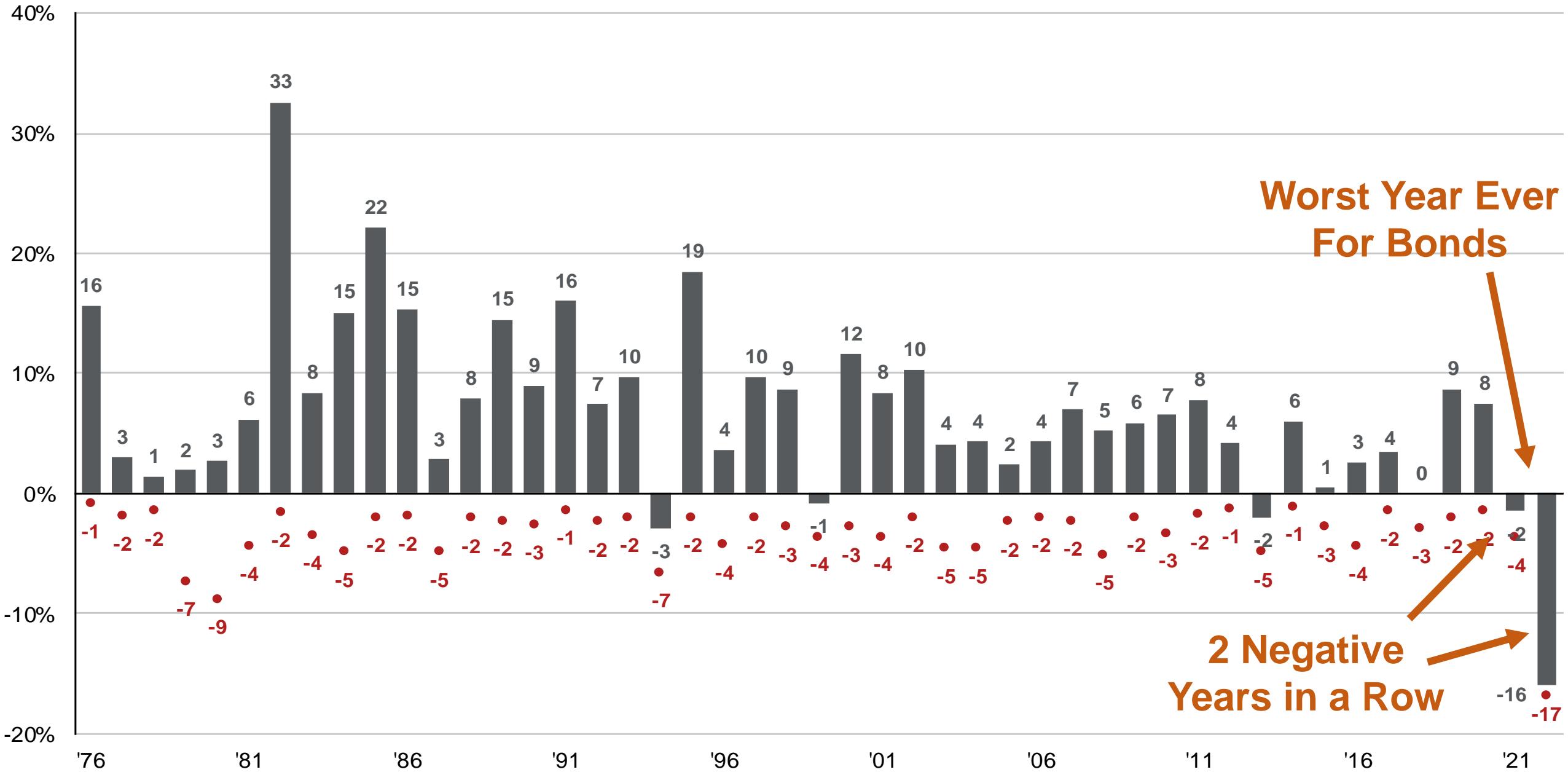


S&P 500 Intra-Year and Calendar Year Returns



Bloomberg US Agg. Annual Returns and Intra-Year Declines

Bloomberg U.S. Aggregate Intra-Year Declines vs. Calendar Year Returns

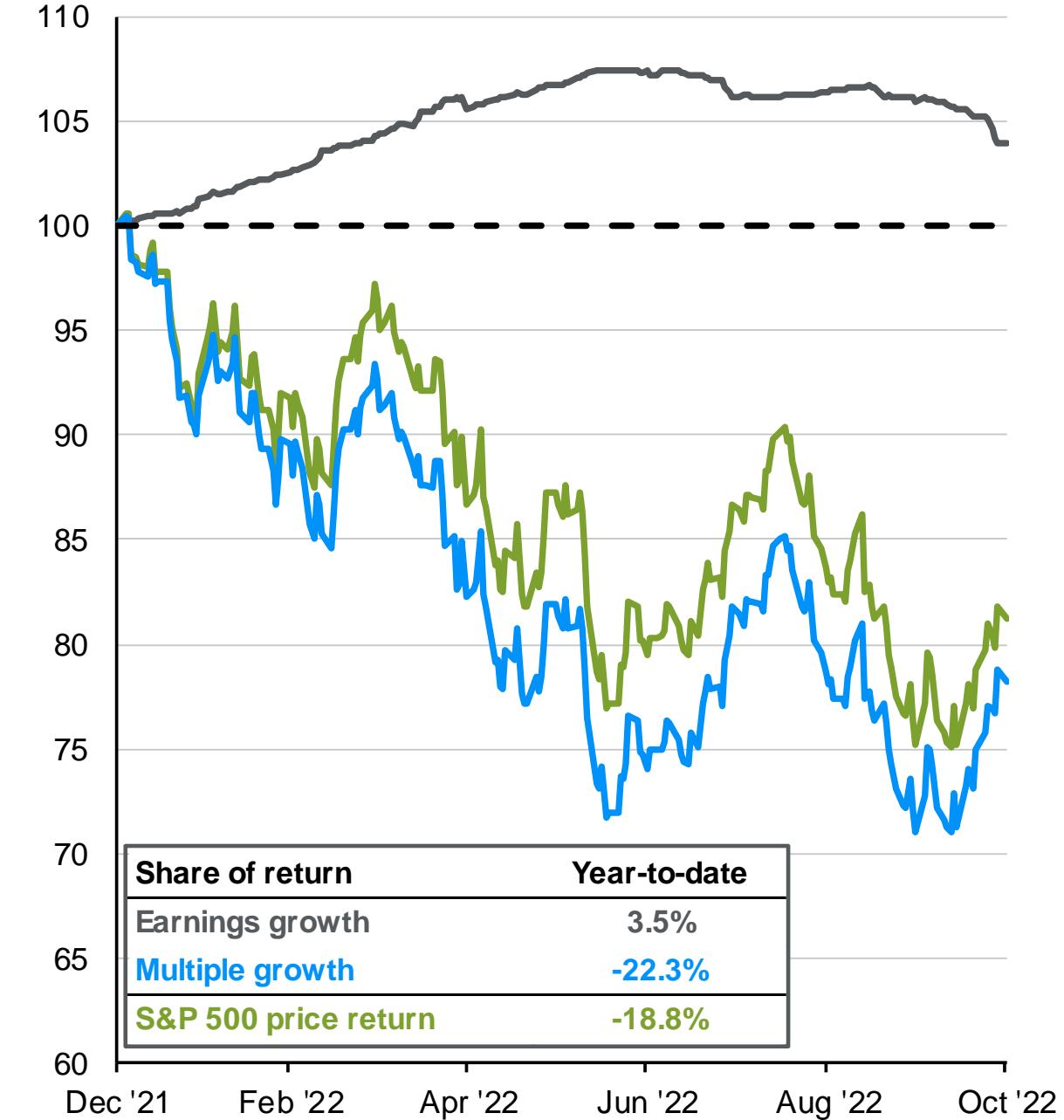
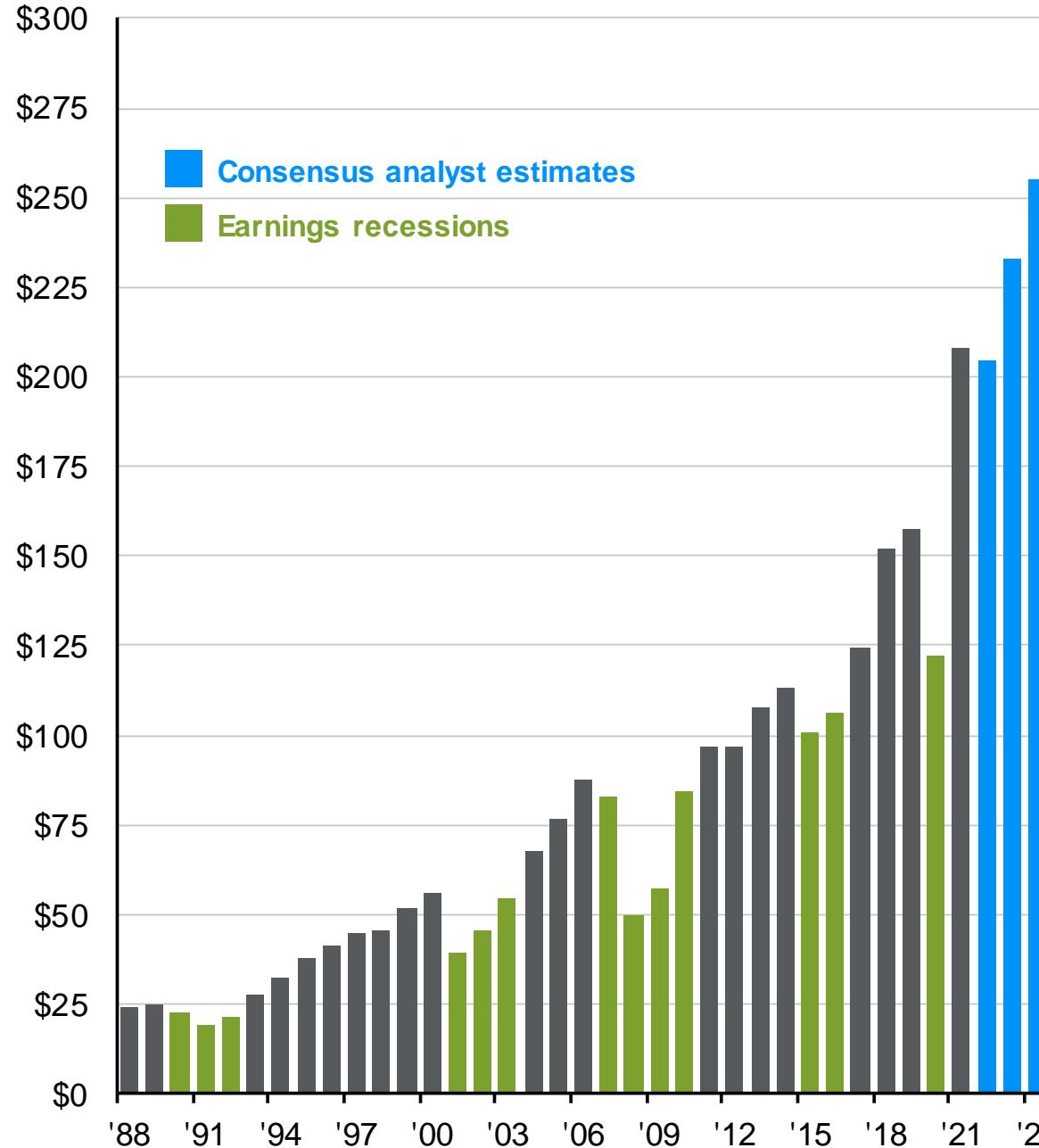


REAL GDP

Real GDP: Percent change from preceding quarter



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

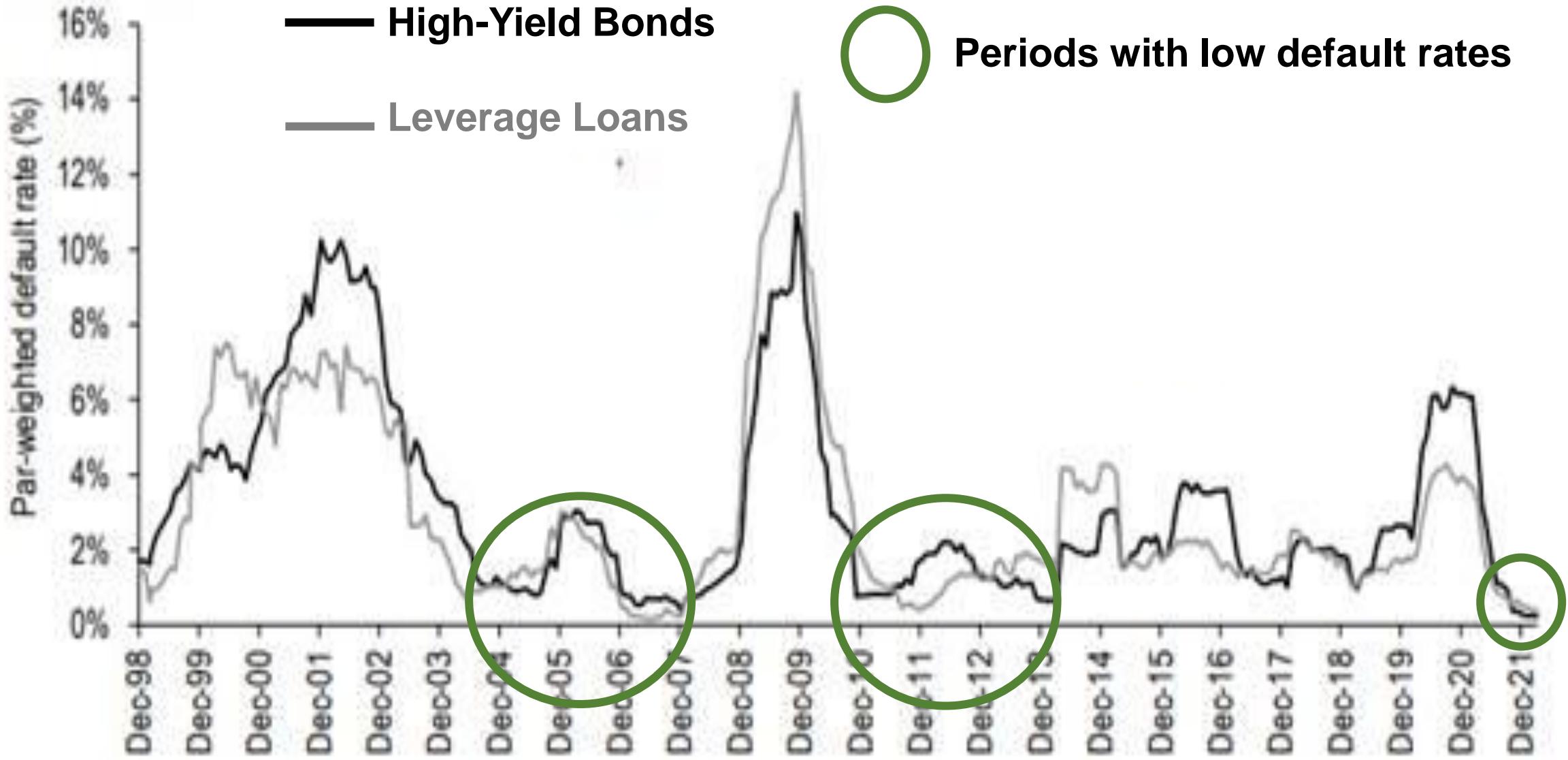


High Yield Spreads and Stock Market Cycles

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



Source: J.P. Morgan.

Core PCE (Inflation), 10-Years

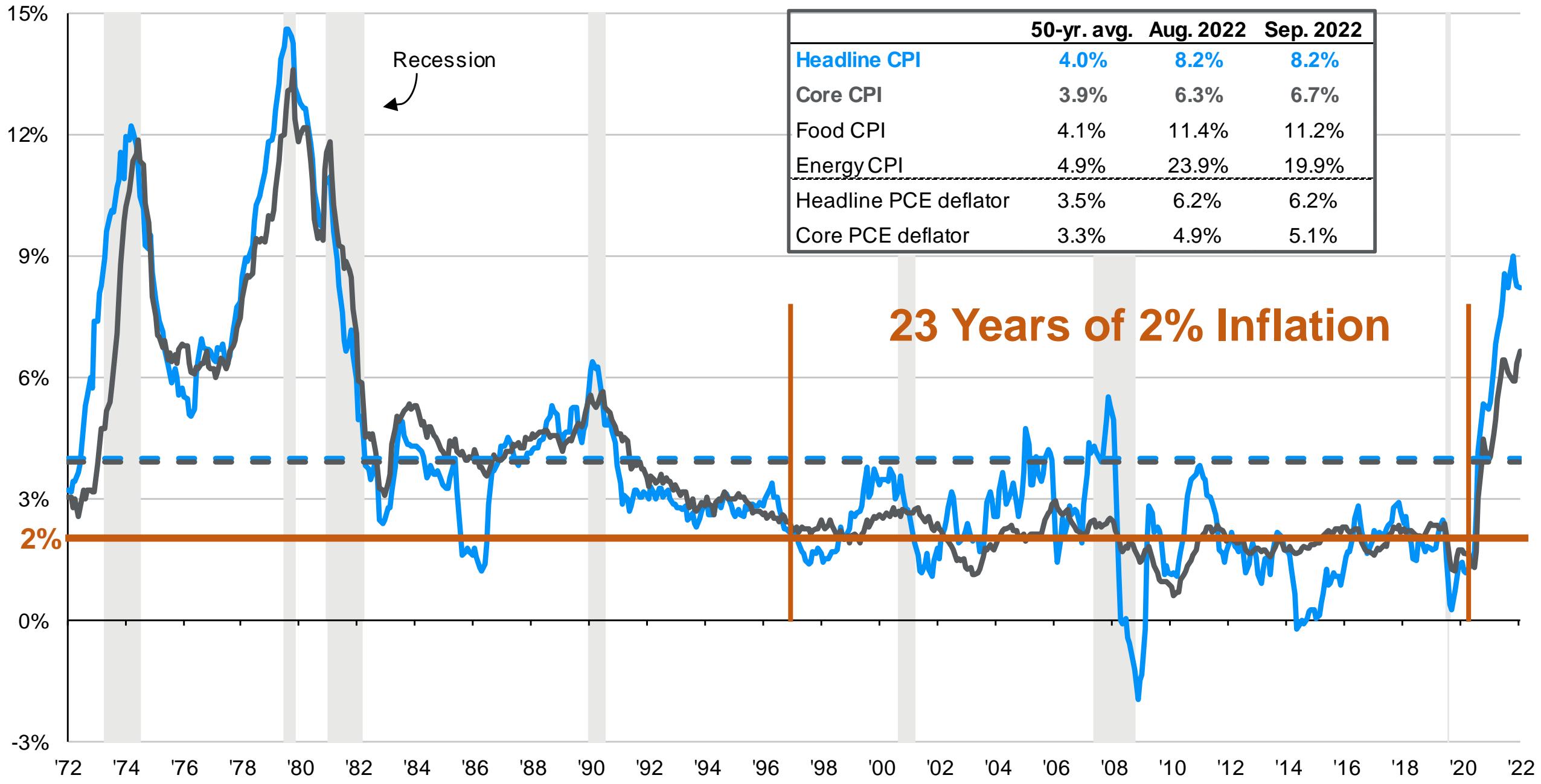
FRED 

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



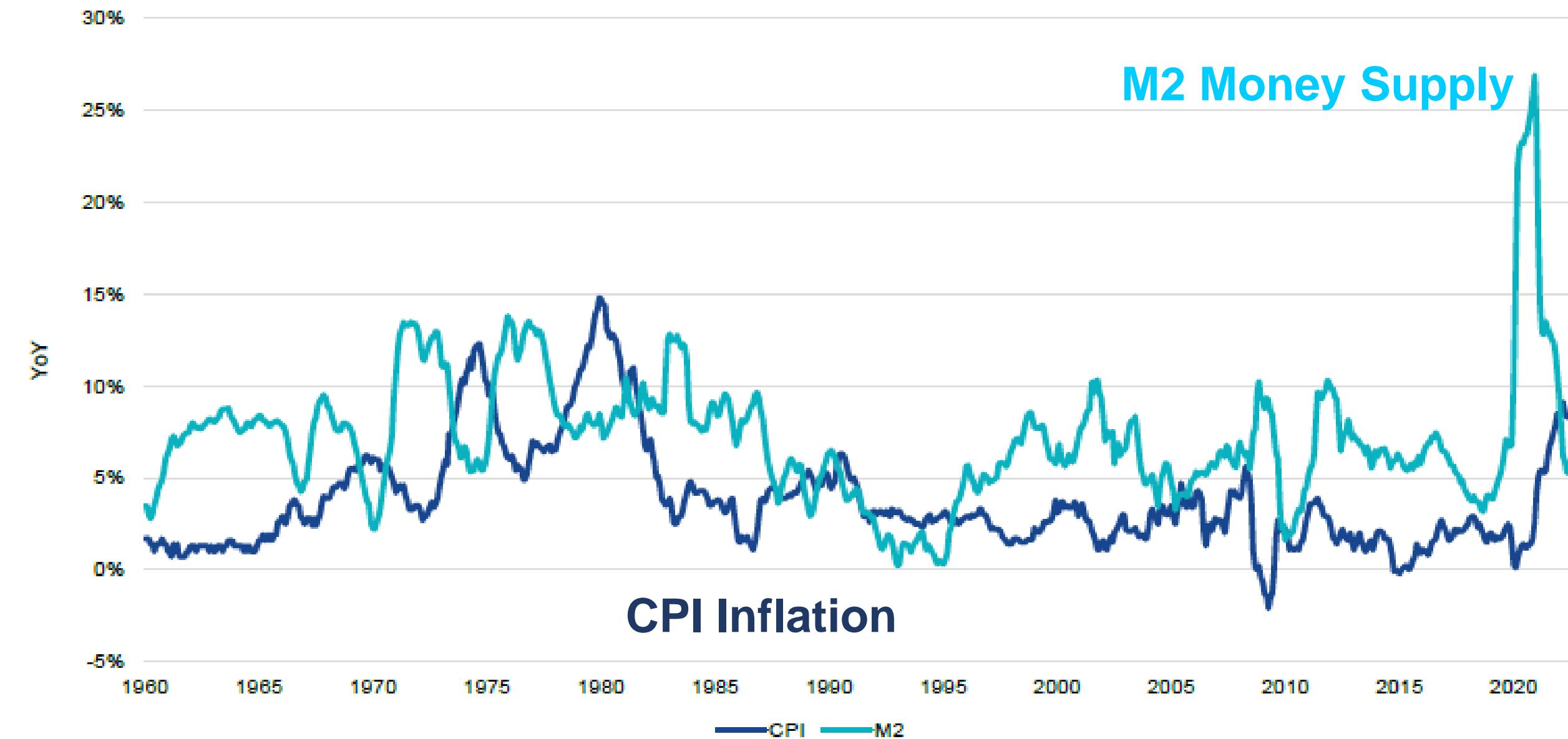
CPI and core CPI

% change vs. prior year, seasonally adjusted

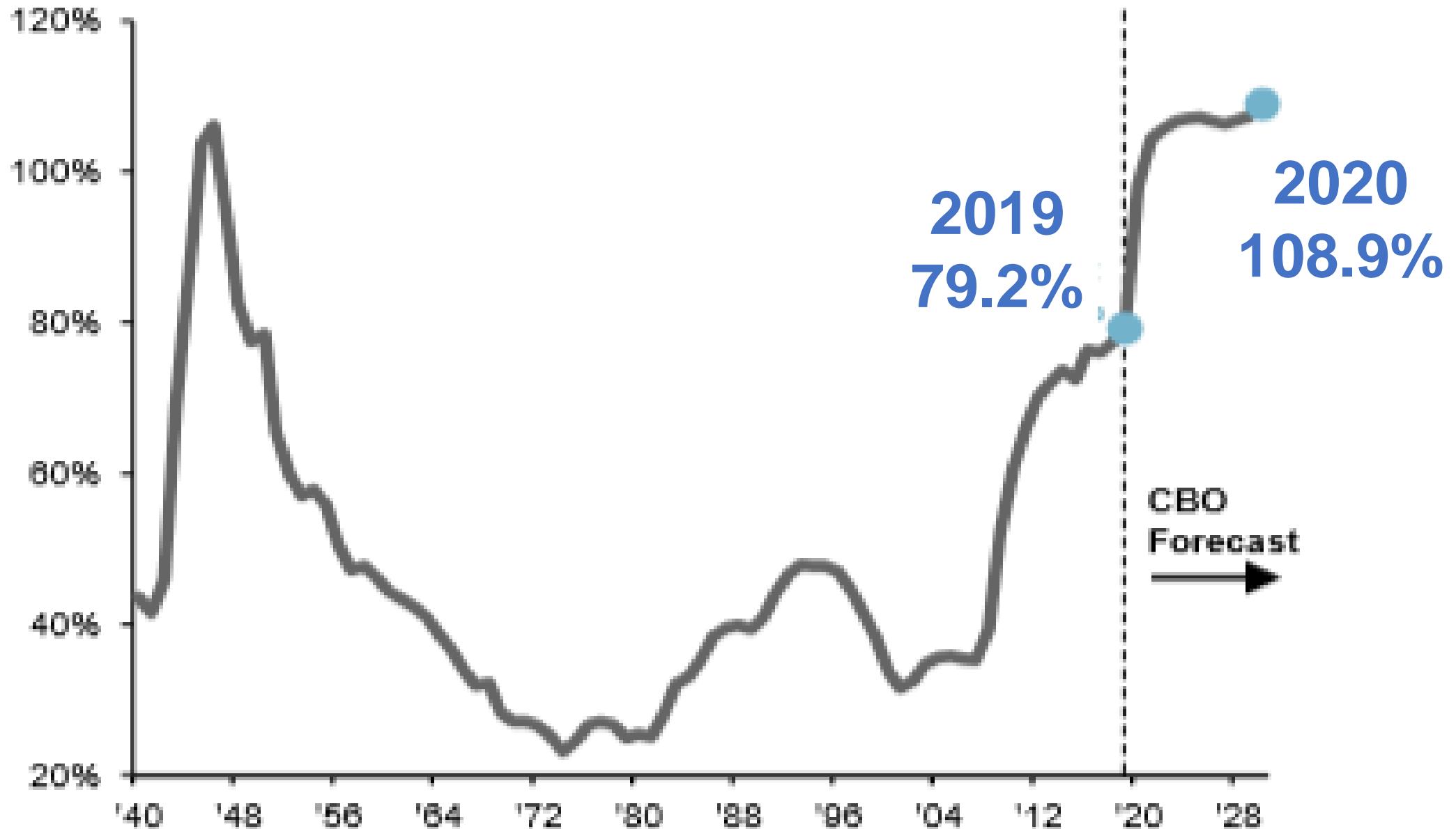


Inflation and Money Supply

CPI vs. M2 Yearly Growth

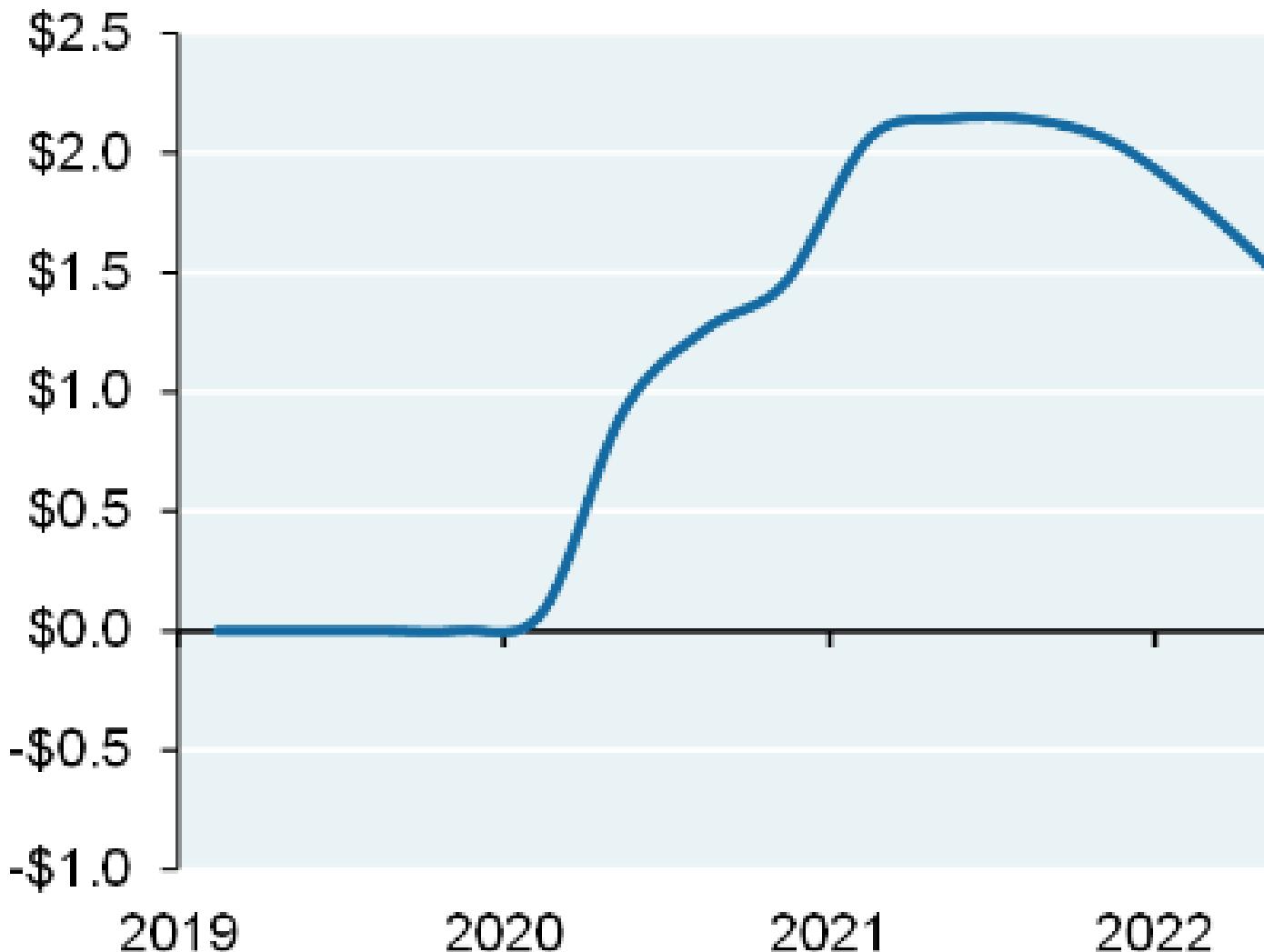


Federal Debt, % of GDP, 1940-2030



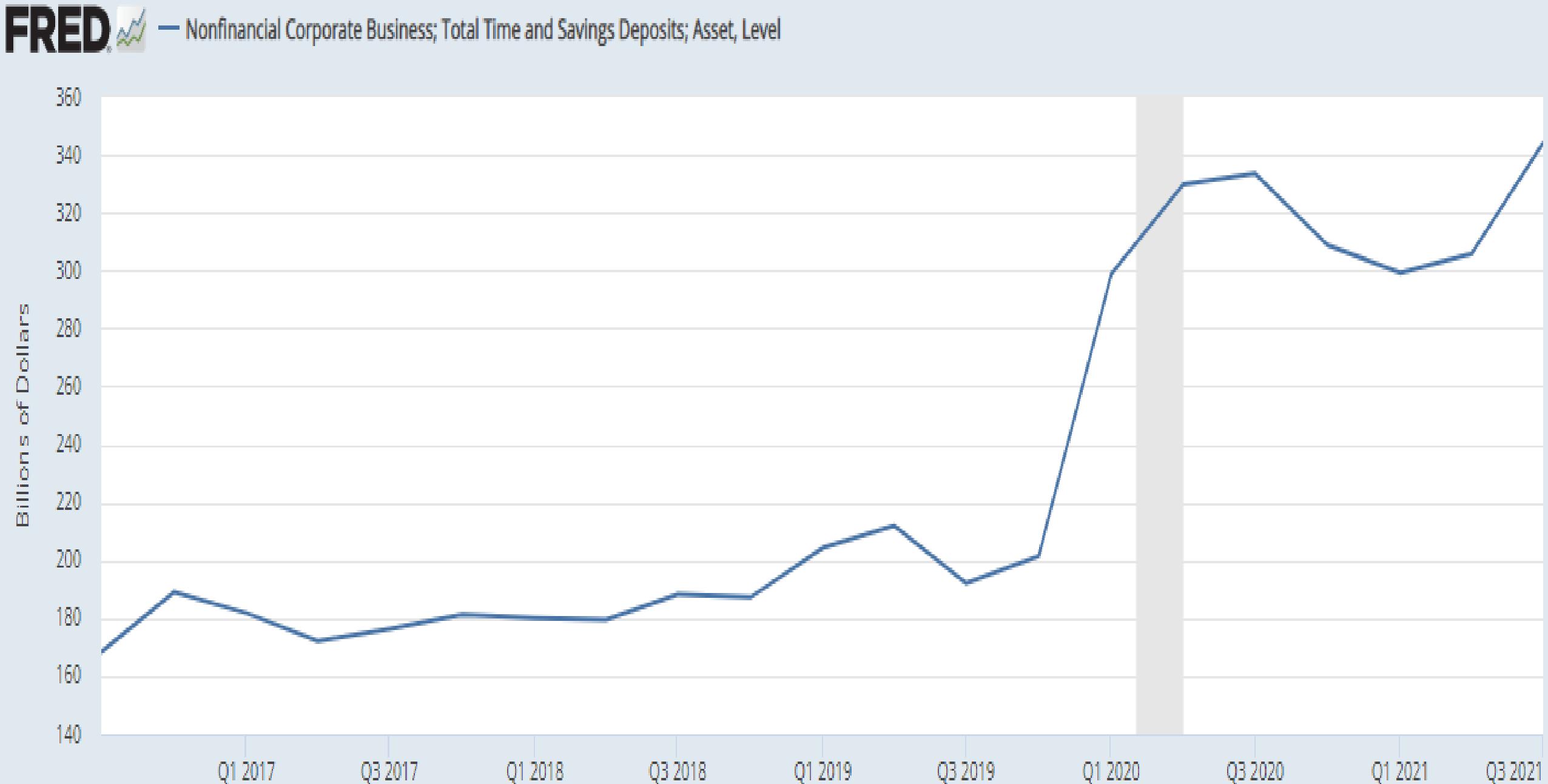
Accumulated "extra" saving

US\$, trillions



Source: BEA, J.P. Morgan Equity Strategy. Q3 2022.
projections.

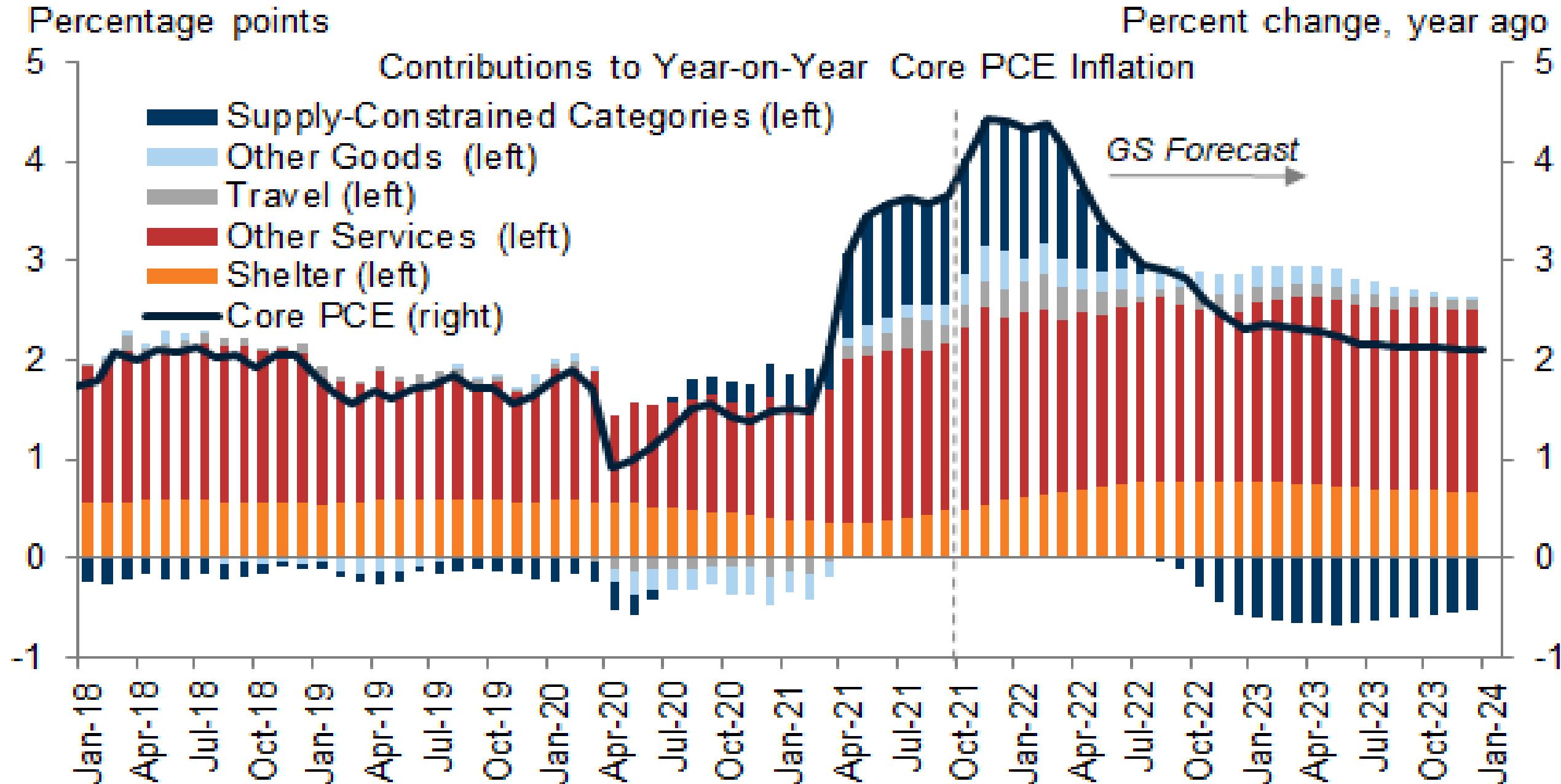
Corporate Cash in the Bank



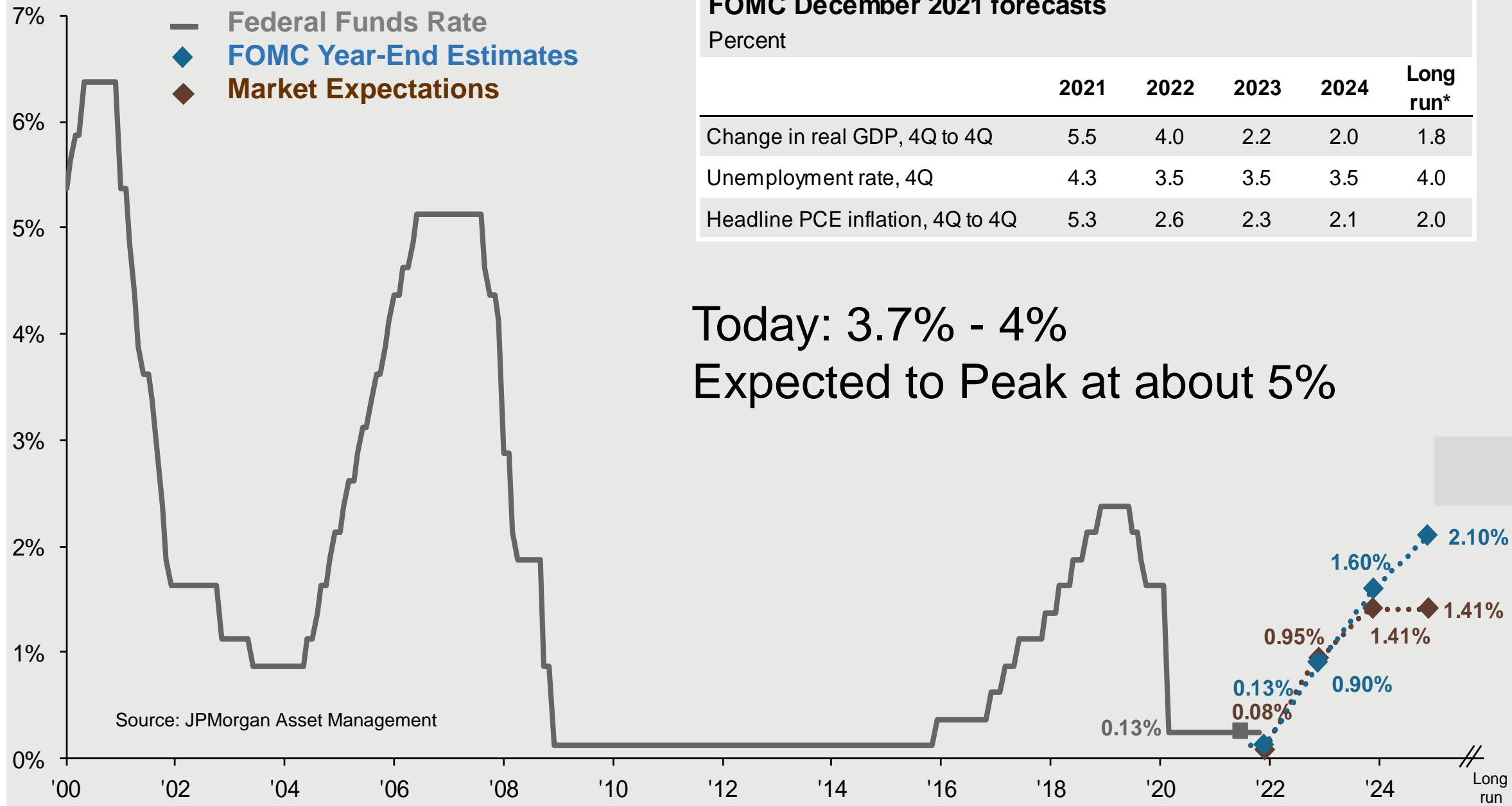
Federal Reserve Chair Jerome Powell - Fall 2021

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

Inflation Migrates Back Towards 2%



Federal Funds Rate Expectations December 2021



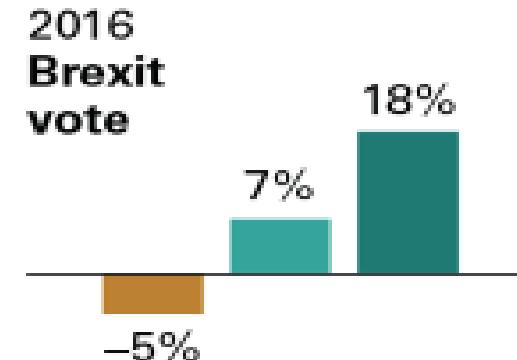
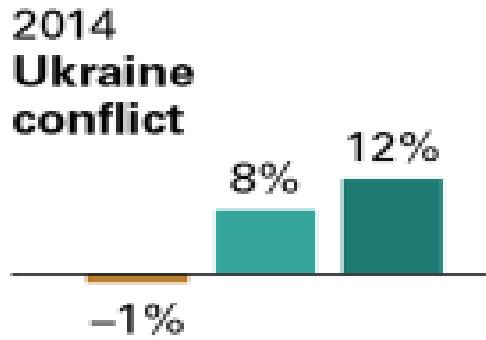
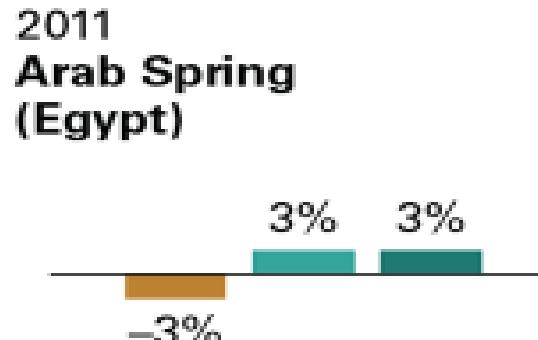
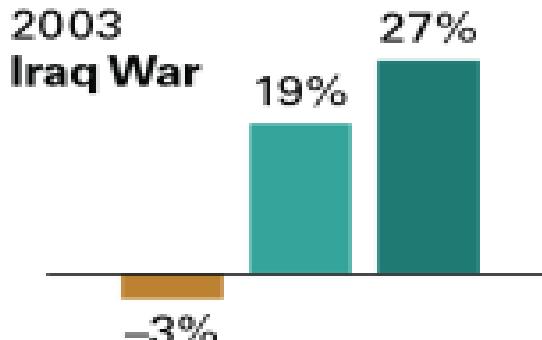
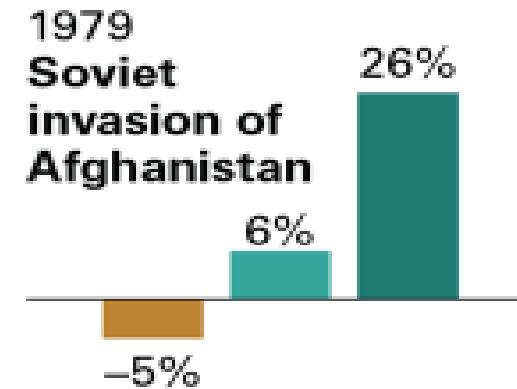
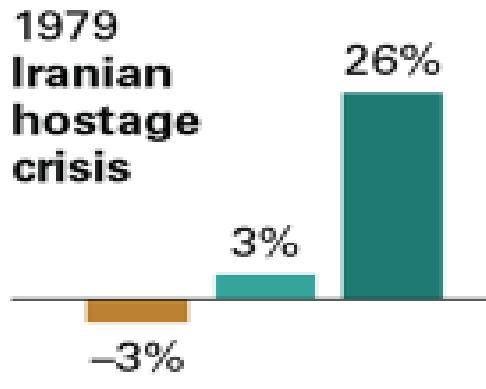
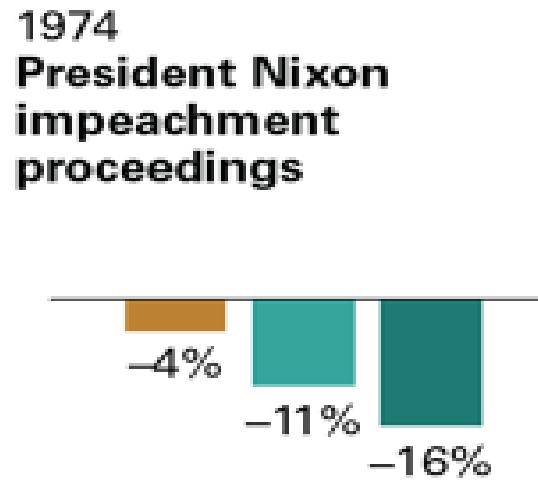
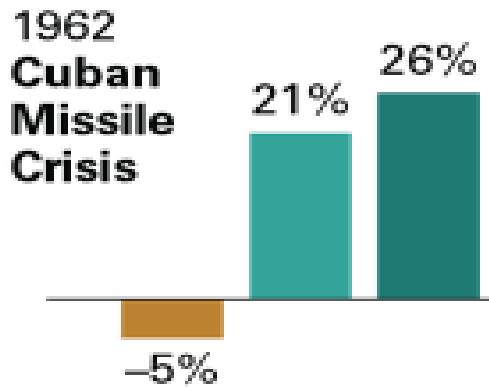
Inflation Was Supposed to be Transitory

- 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

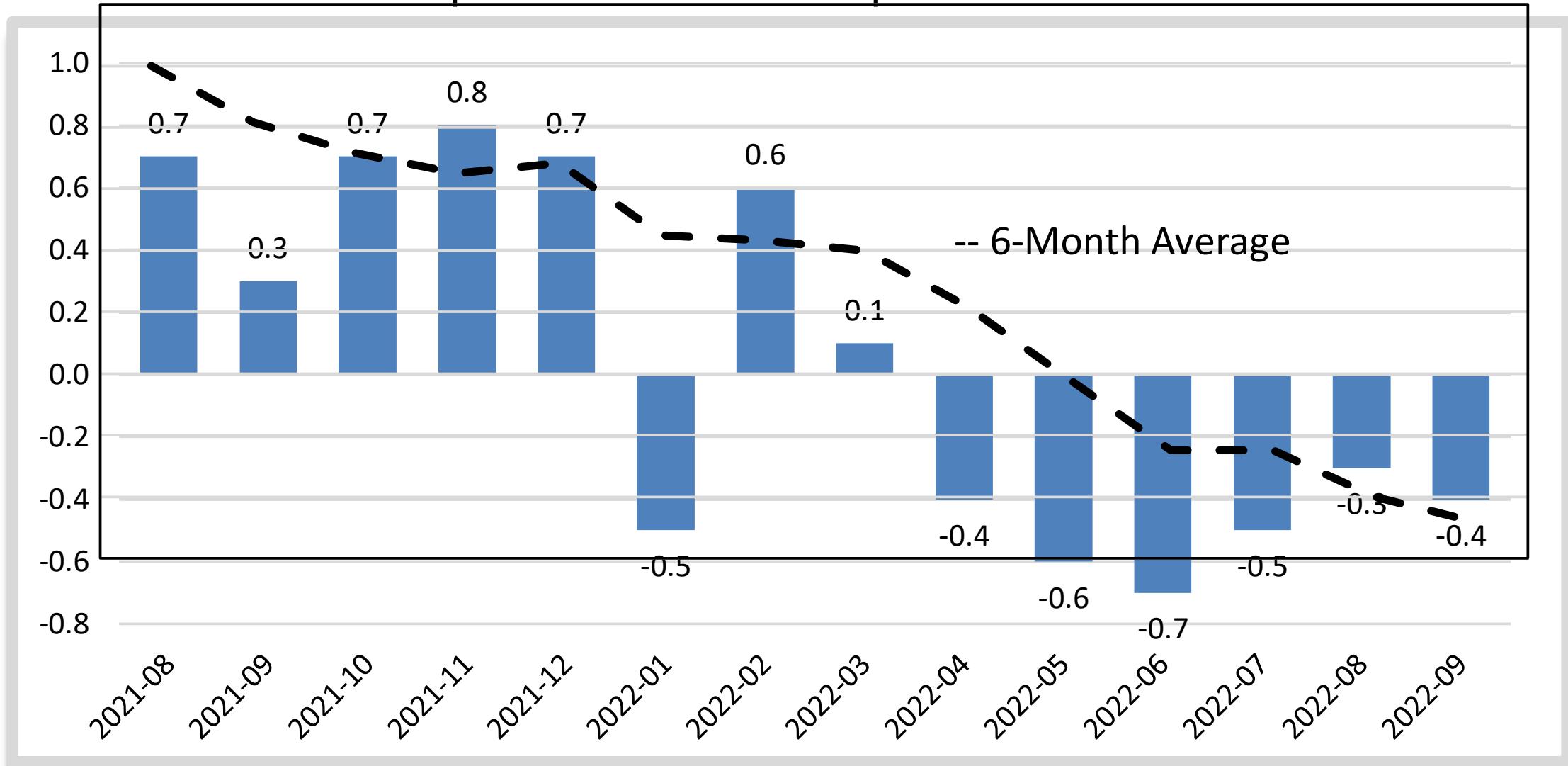


S&P 500 2022



Leading Economic Index % Change Monthly

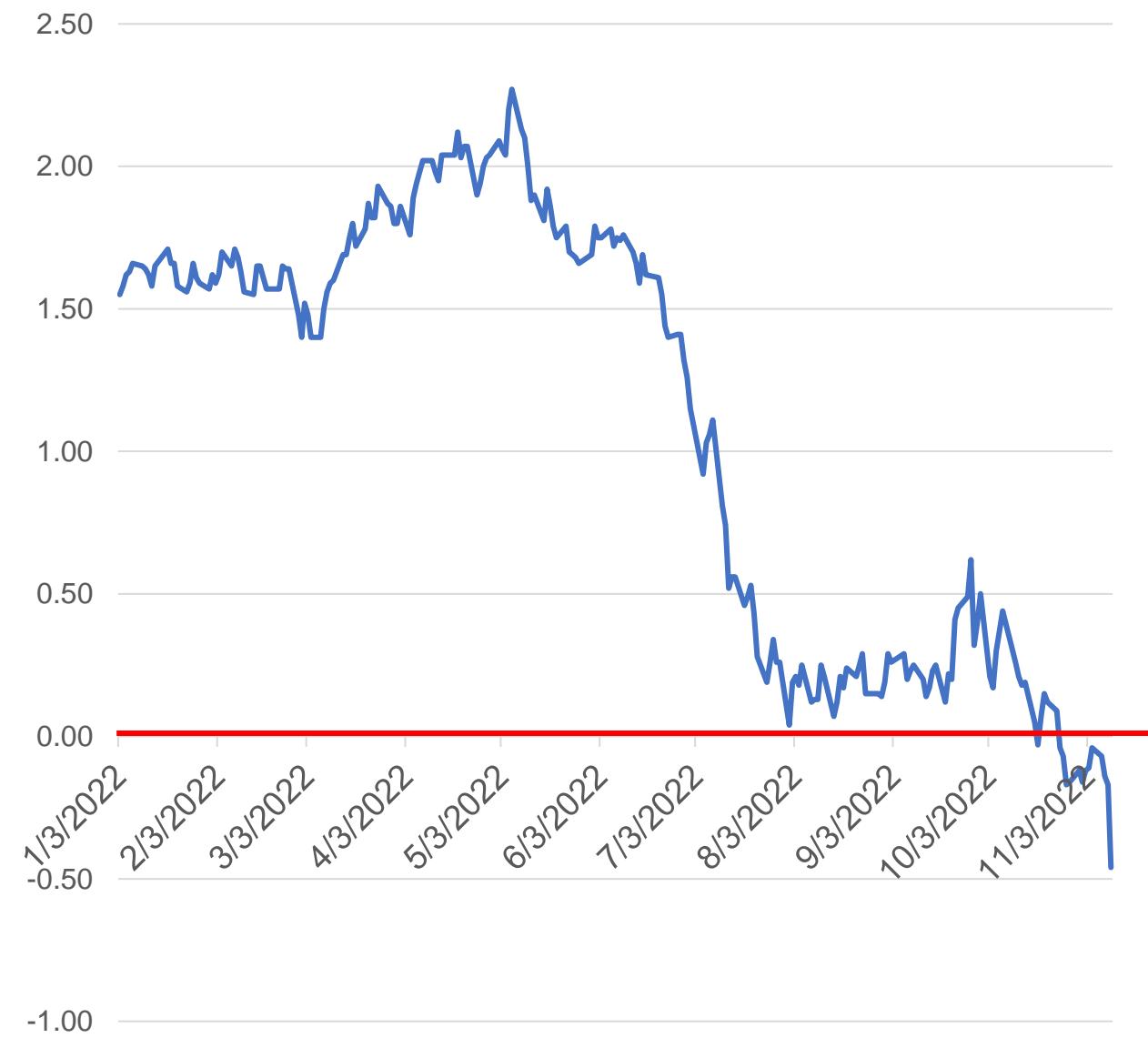
September 2021 – September 2022



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

Yield Curves Inverted

3-Month vs. 10-Year Treasury

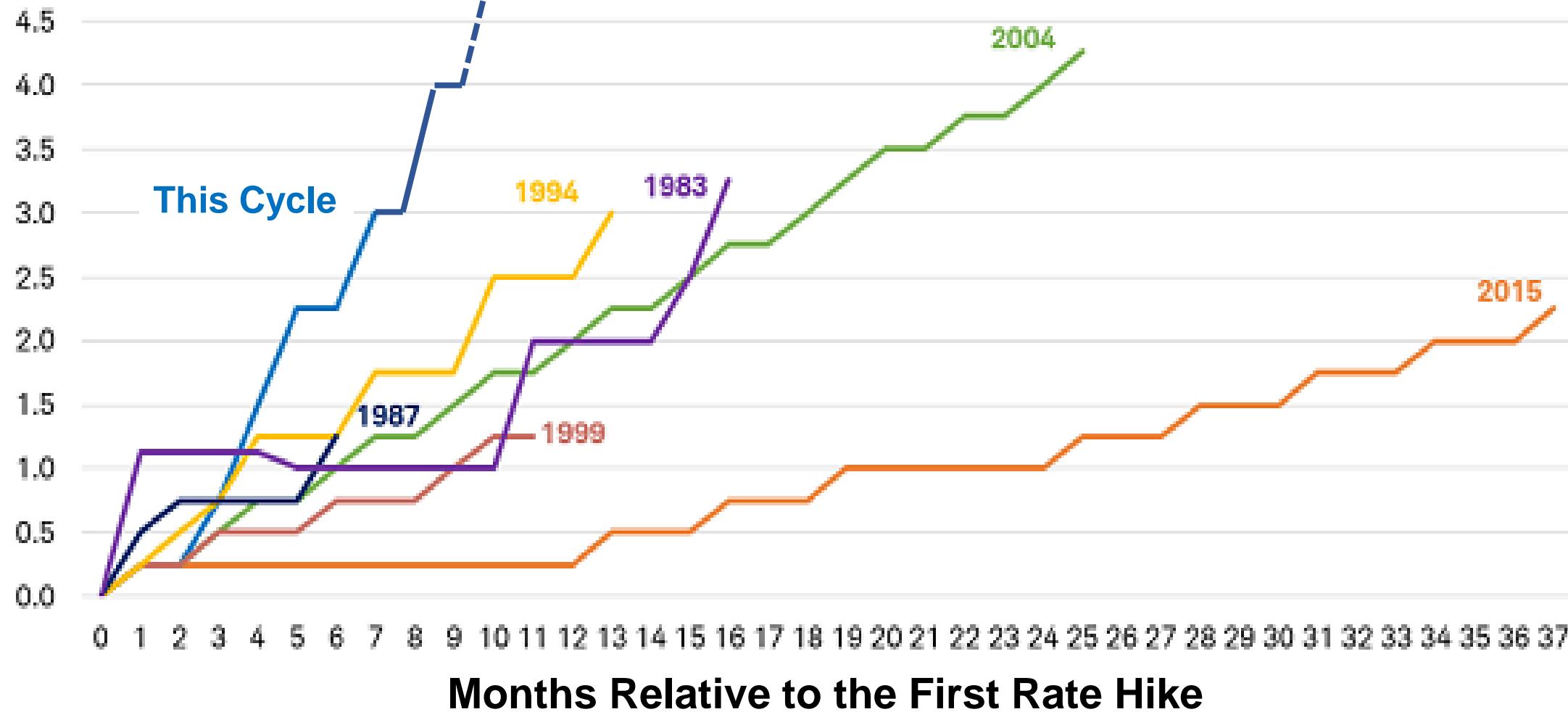


2-Year vs. 10-Year Treasury



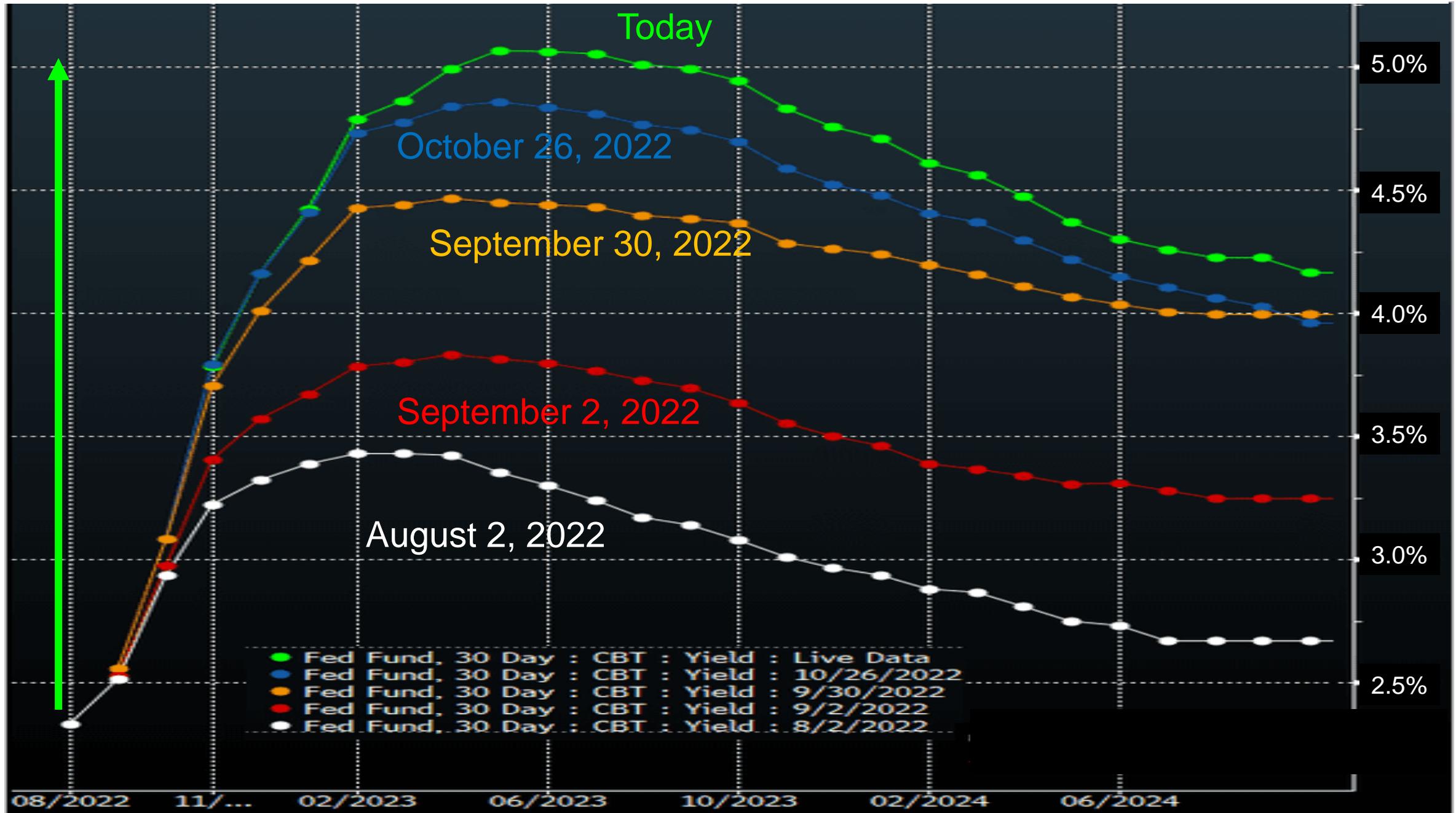
Fed Funds Rising at Fastest Pace Ever

Change in Fed Funds Rate %



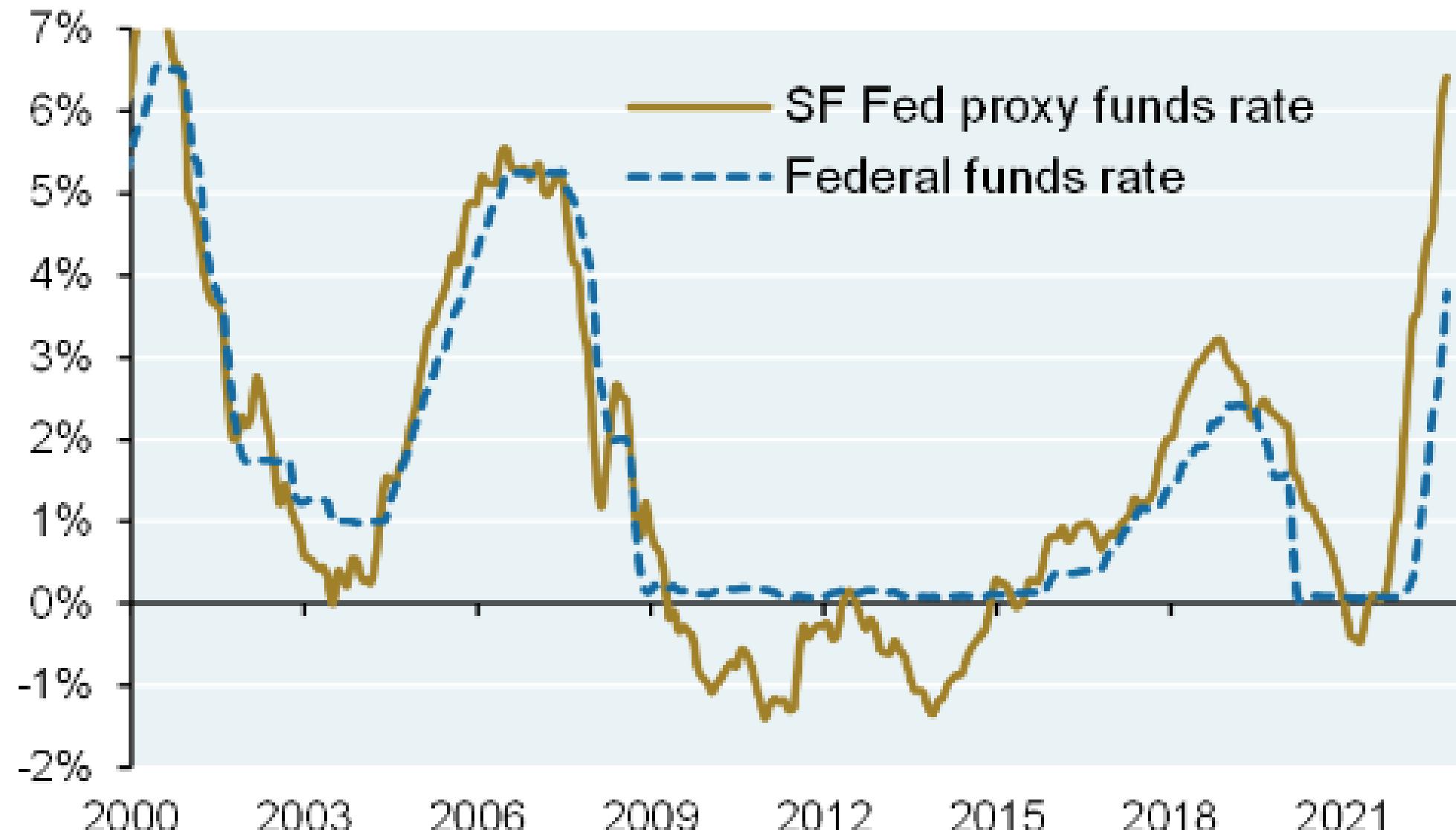
Note: Data is short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy.
Source: Bloomberg, Federal Funds Target Rate – Upper Bound (FDTR Index), using monthly data.

Rising Expectations For Terminal Fed Funds Rate



Federal funds rate vs proxy funds rate

Percent, annualized

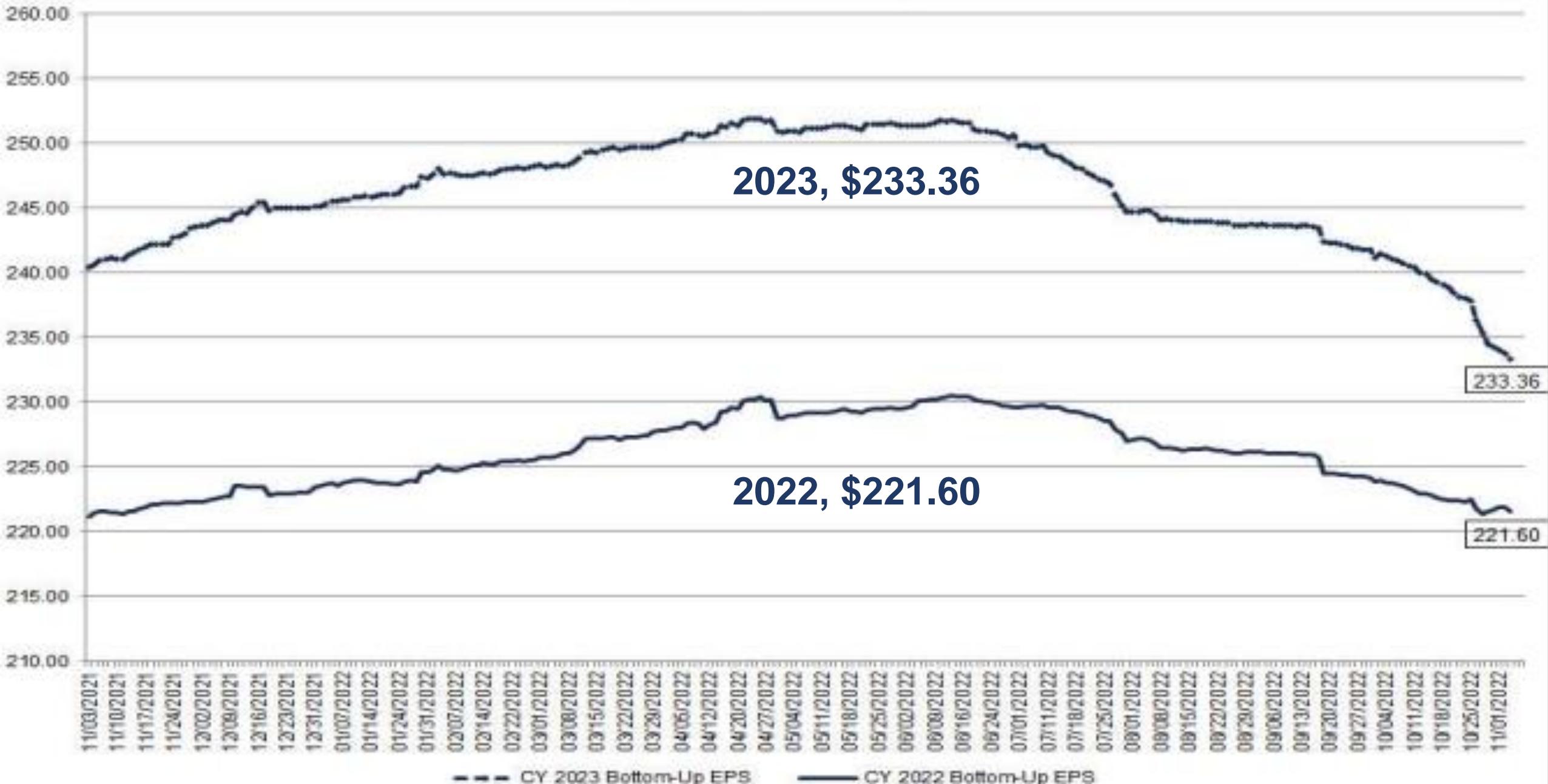


Source: SF Fed, FRED. November 2022.

Expectations for Q4 2022 Earnings Growth Rate Y/Y



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



Institutional Investors Survey

As of 11/01/2022

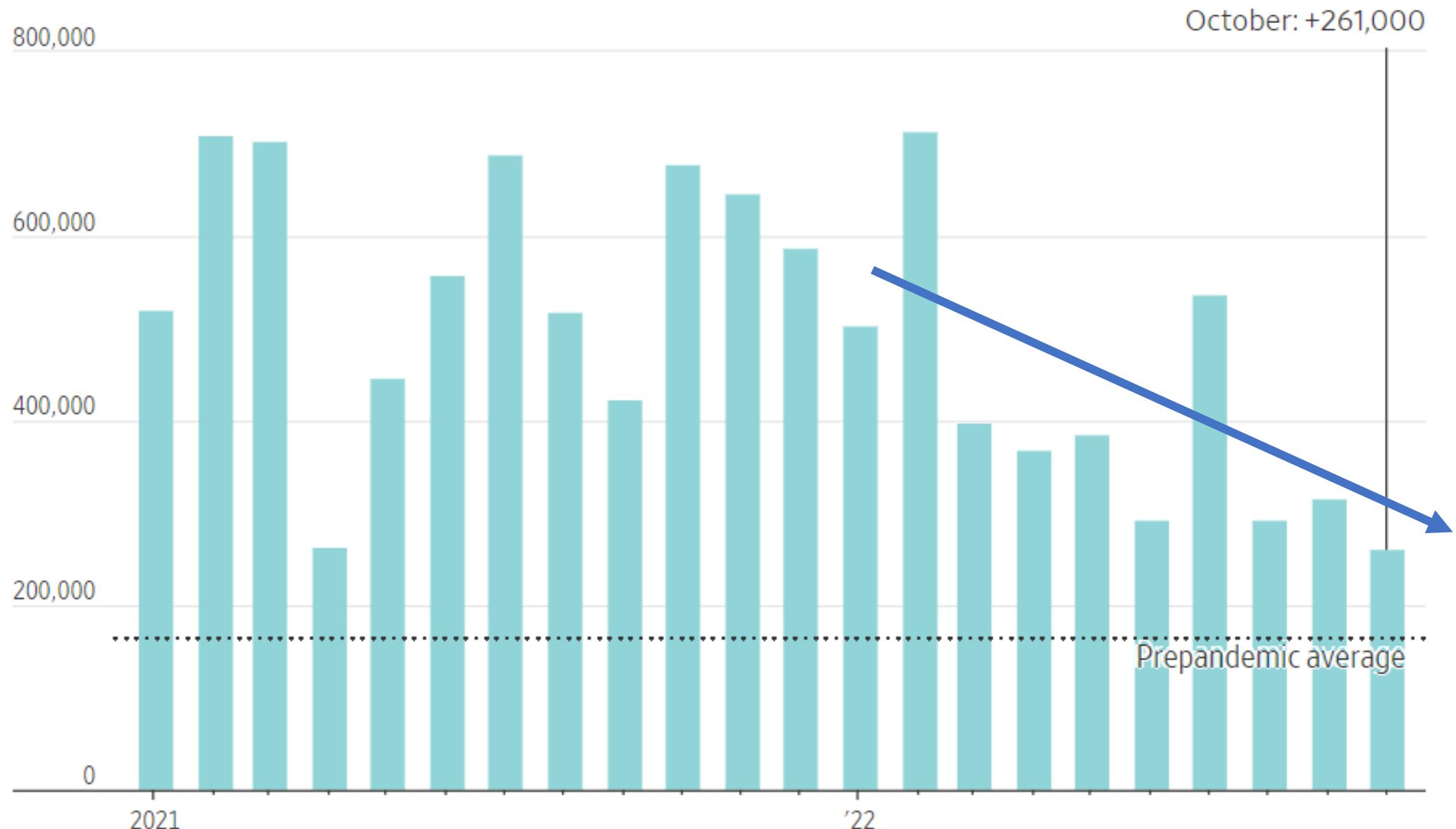
End of 2023

	<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

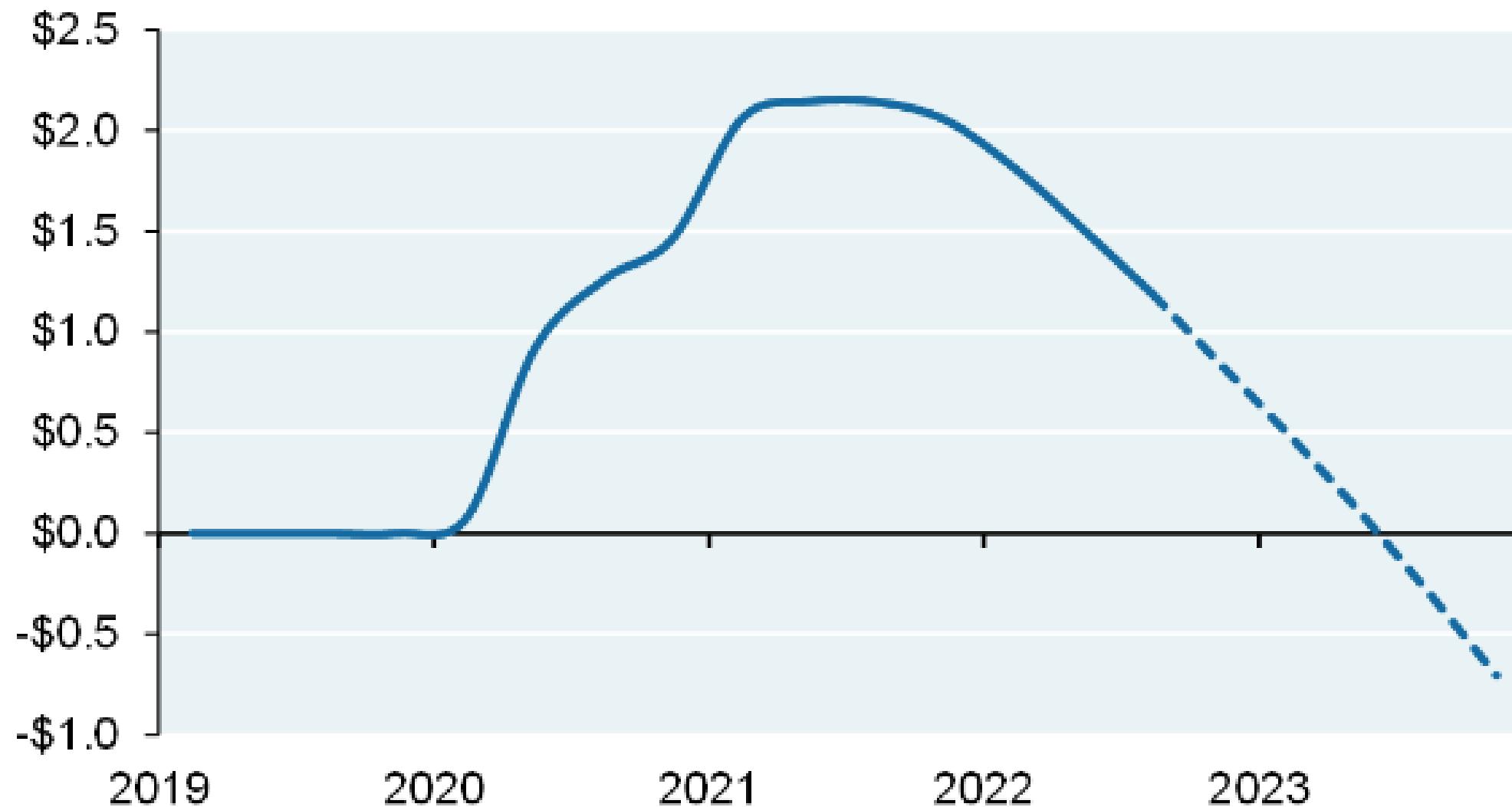
Nonfarm payrolls, monthly change



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

Accumulated "extra" saving

US\$, trillions

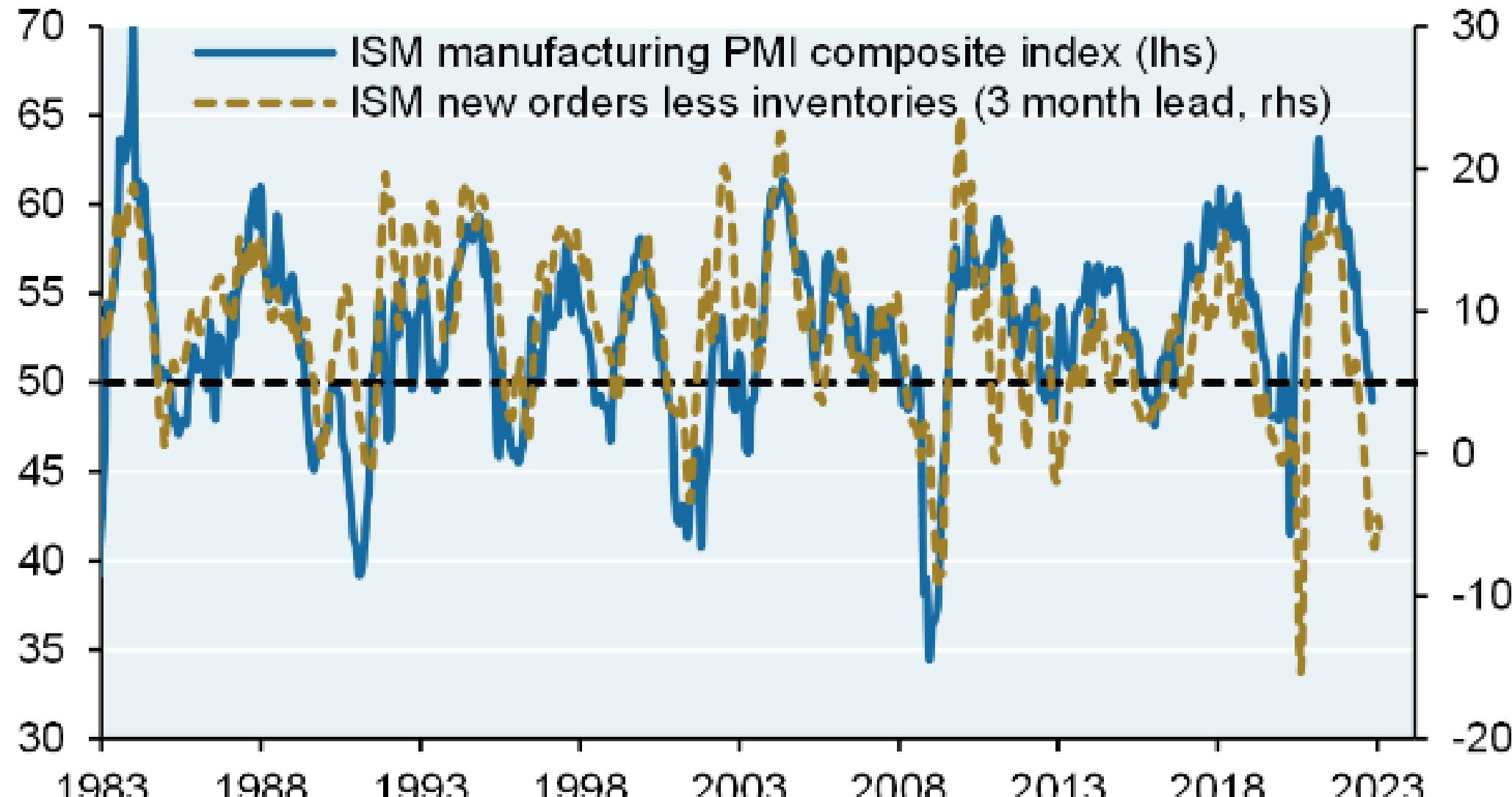


Source: BEA, J.P. Morgan Equity Strategy. Q3 2022. Dotted lines indicate projections.

US new orders less inventories predicting ISM downturn

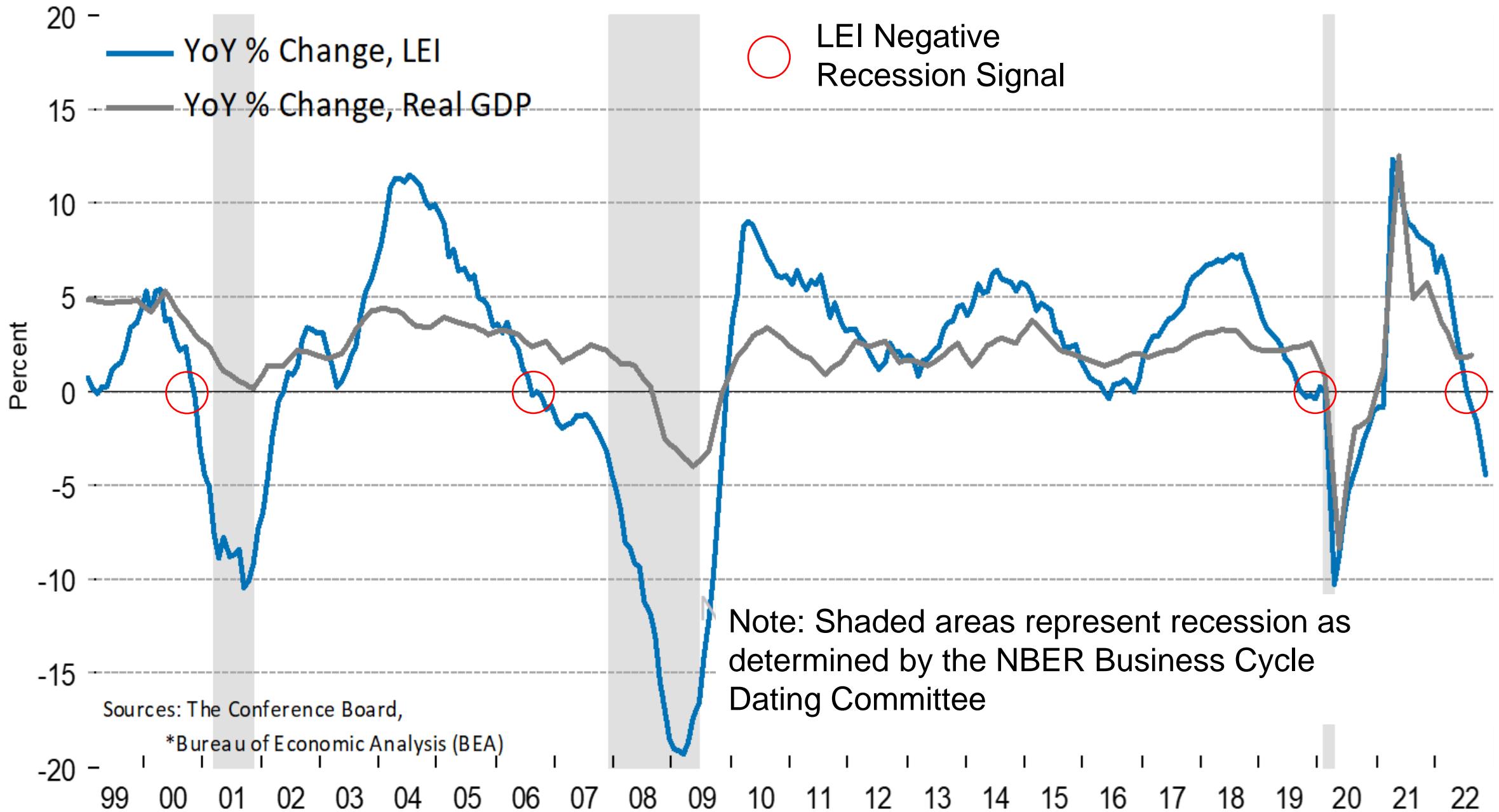
Index (50+ = expansion)

Index, 3 month average



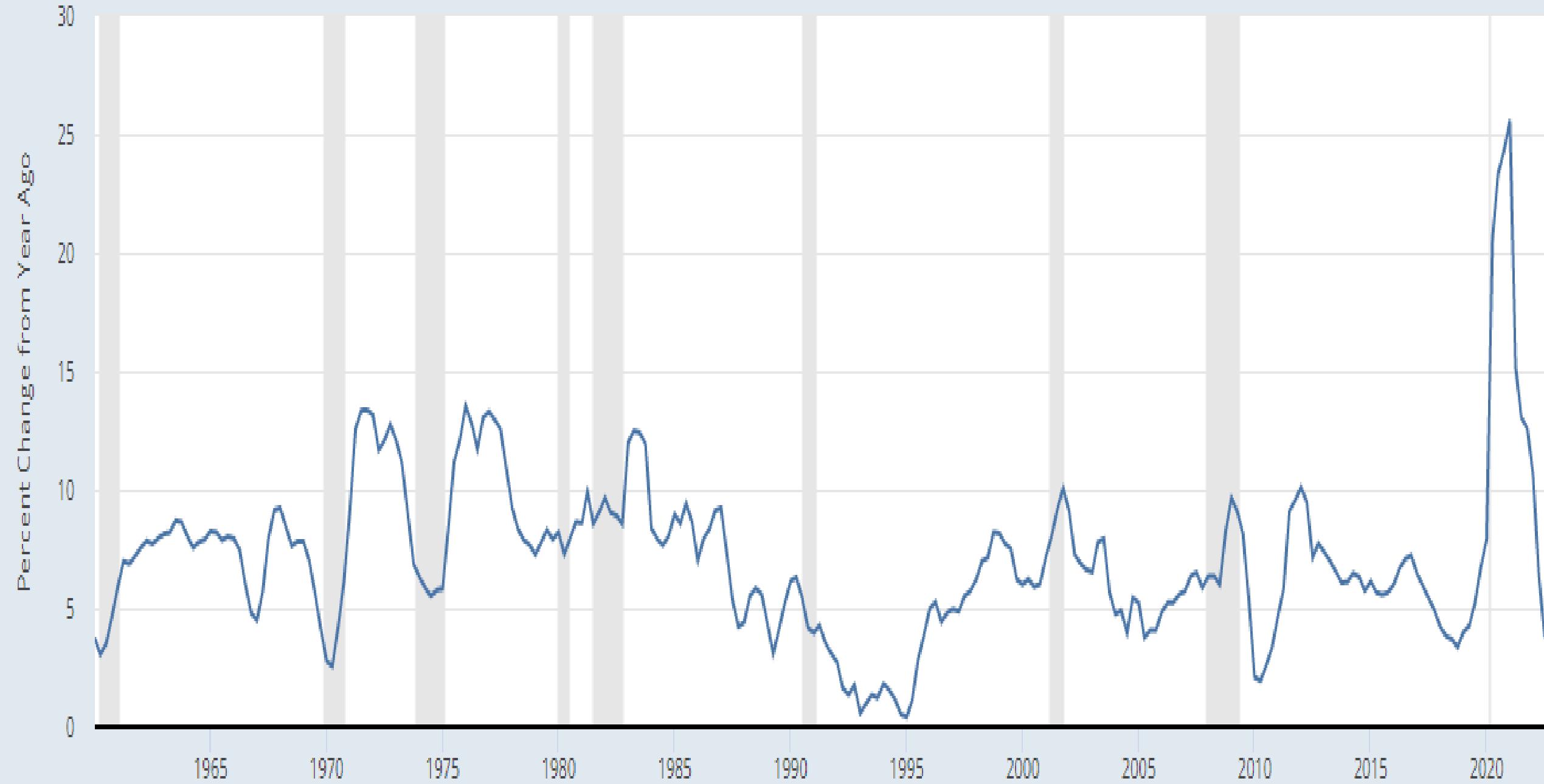
Source: Bloomberg, JPMAM. November 2022.

Leading Economic Index (LEI) and Real GDP



And Now For Some Good News

M2 Money Supply Percent Change Year-Over-Year



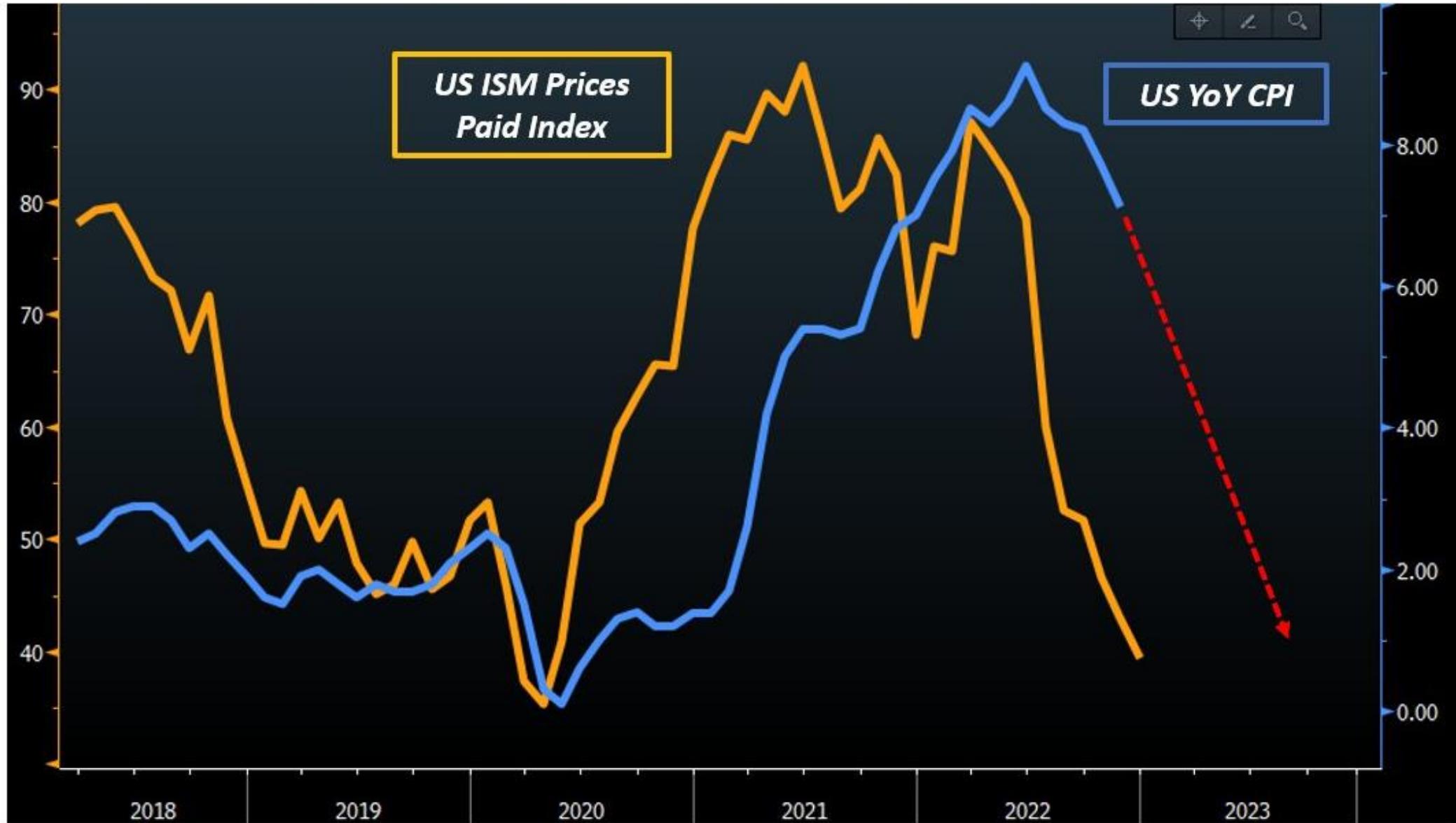
M2 Money Supply vs. CPI

Y/Y % Change Lagged by 16 Months

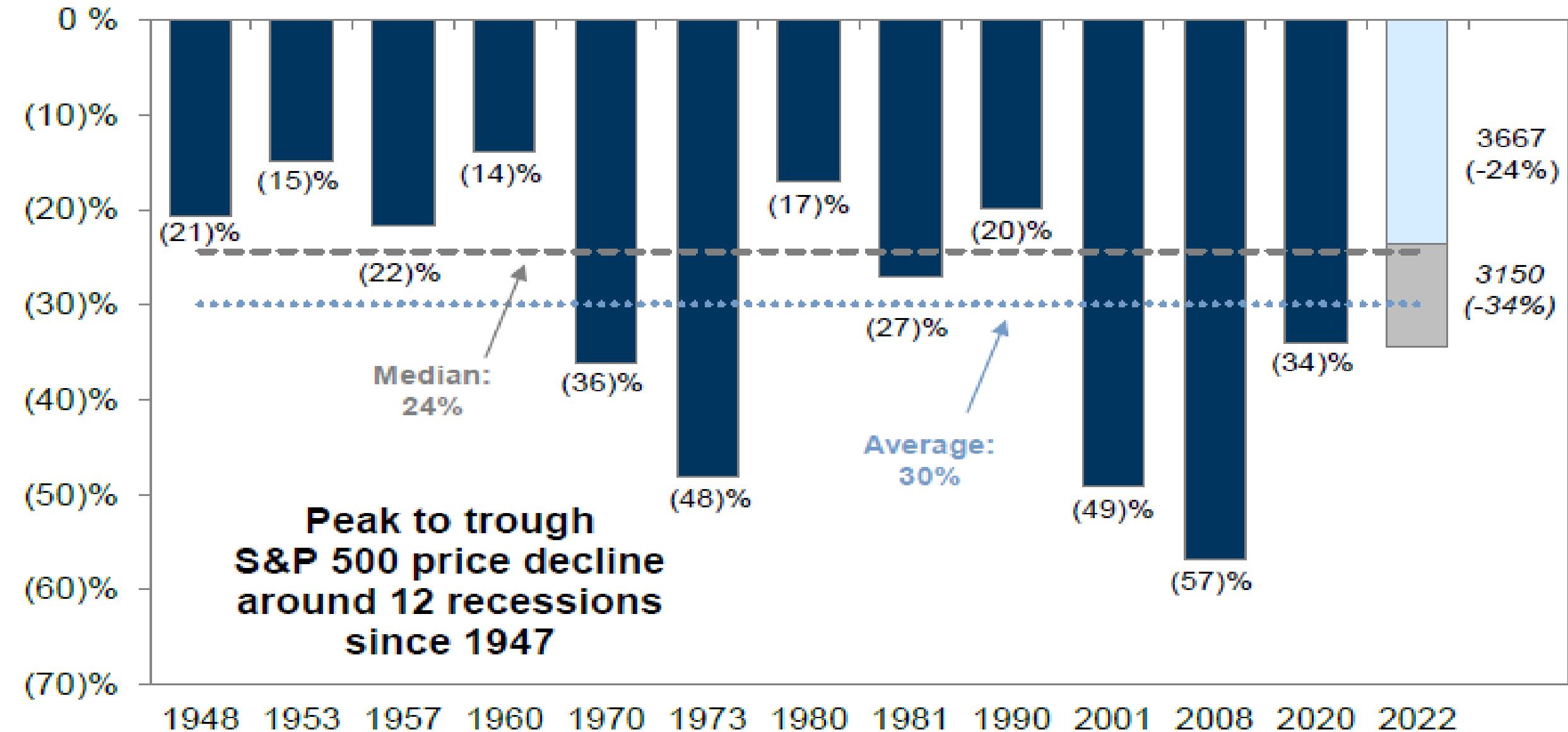


Source: Bloomberg, Morgan Stanley Research

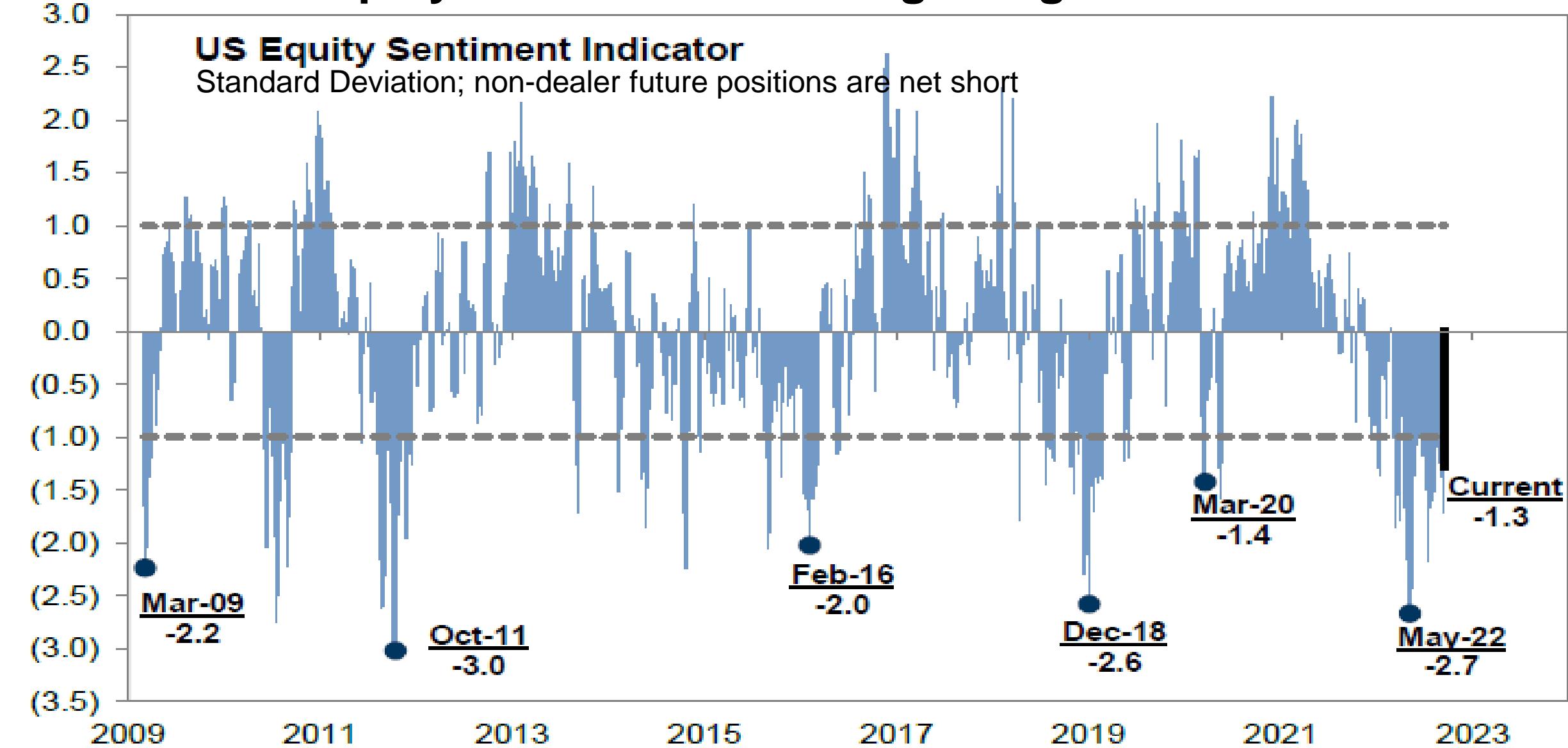
ISM Prices Paid Index – Sub-2% Inflation by December 2023



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



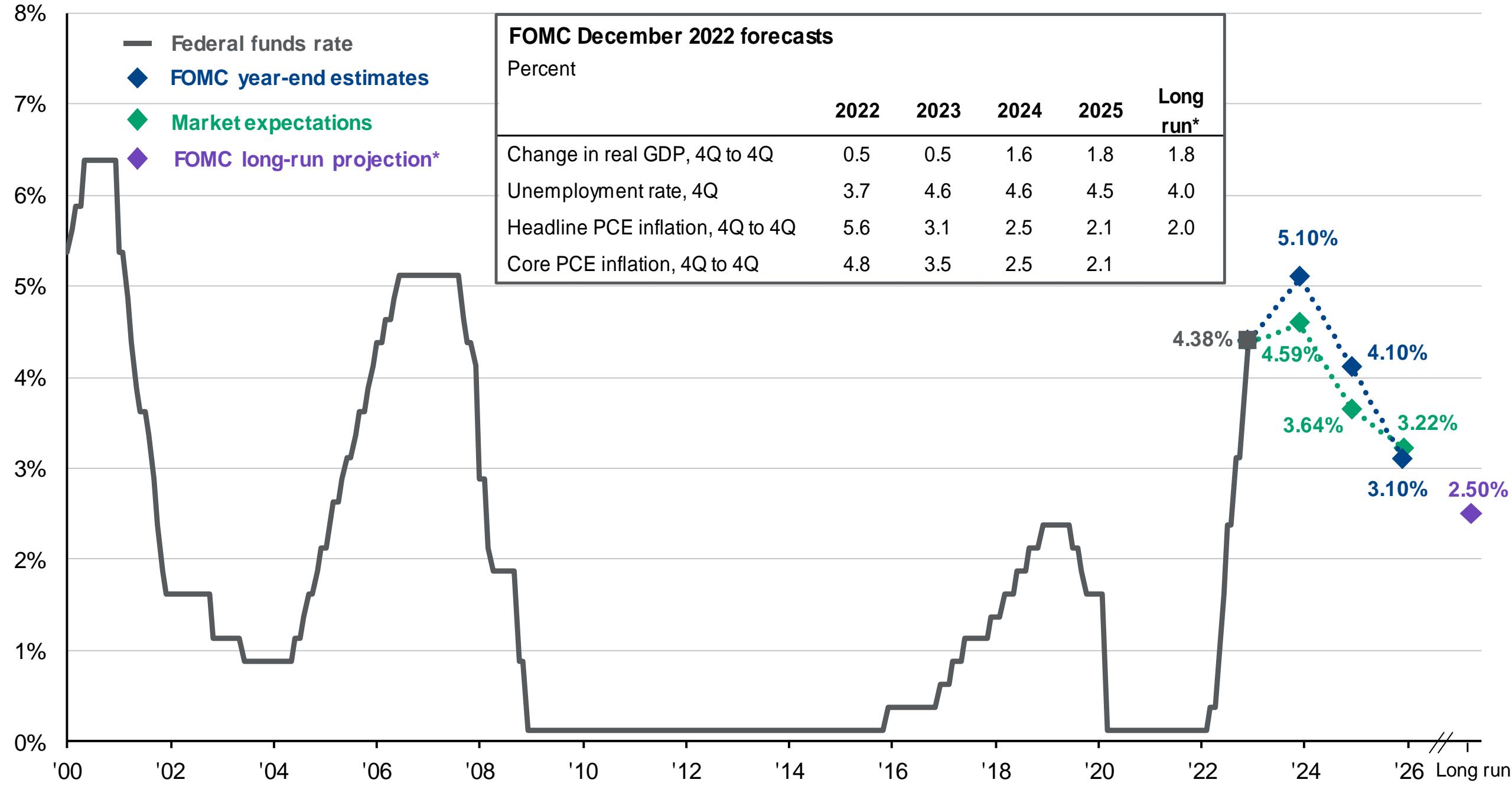
Equity Investor Positioning is Light -- Bullish



Supply Chain Correcting – Vendor Lead Times mid-Atlantic



Fed Funds Rate Expectations



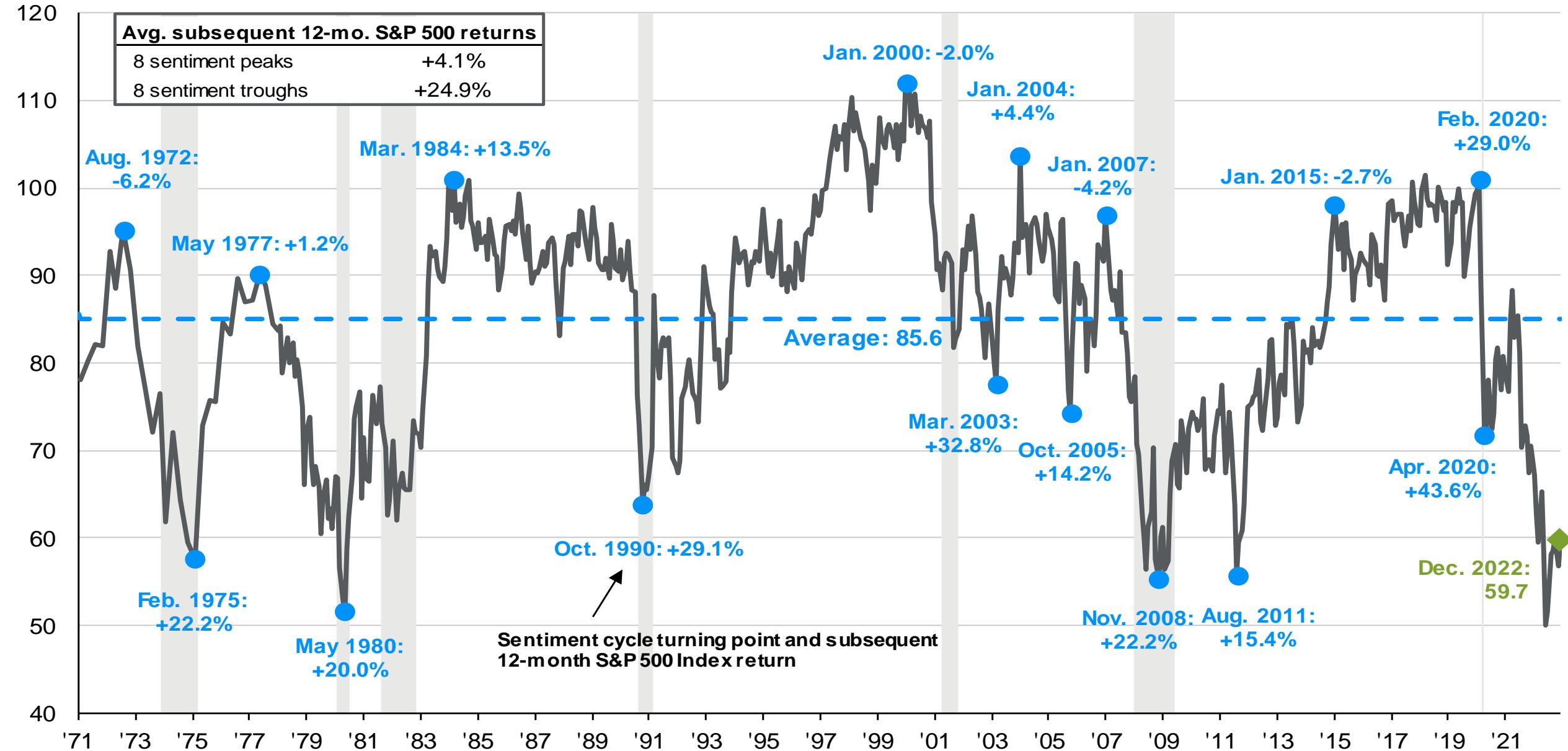
Volcker Fed Pivot and S&P 500

Volcker suggests Fed
“may shift tactics”
(10/5/82)



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%

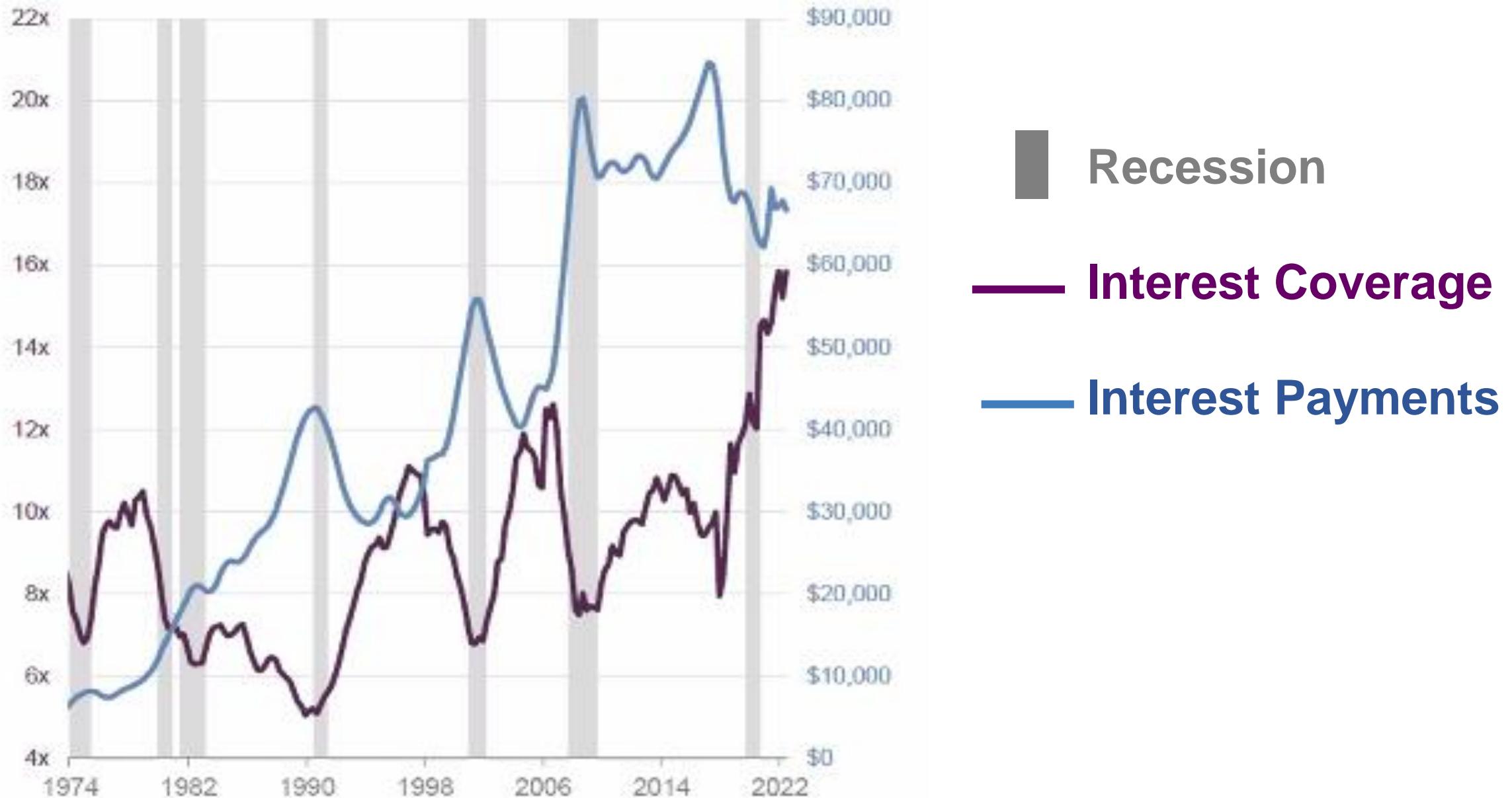
S&P 500 Total Returns Following 25% Drawdown (%)

25% Drawdown Period	Peak-to-Trough Drawdown	Total Returns (%)			
		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	-	-	-	-
Average	-38	27	45	93	238

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. they 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

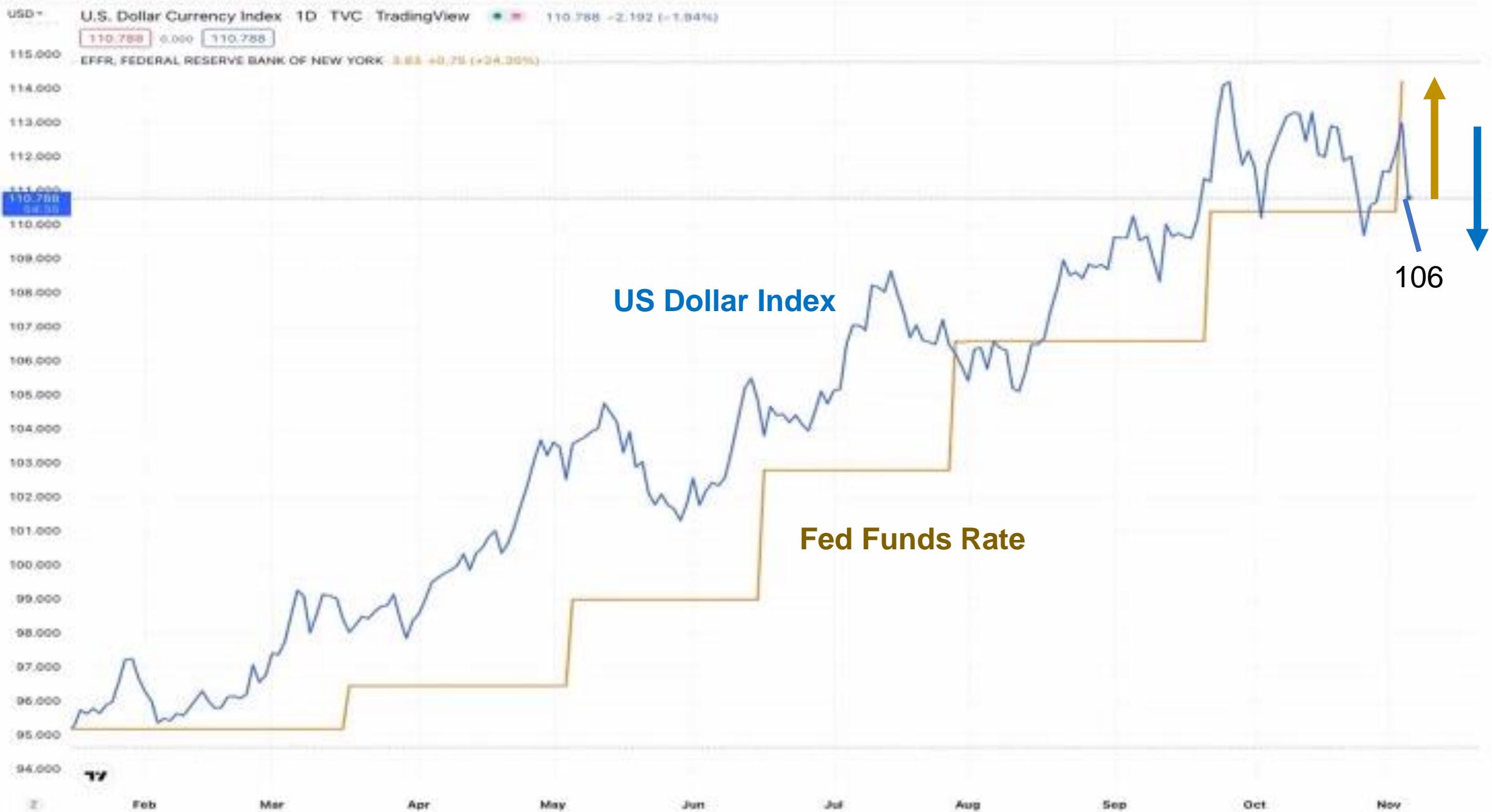


Spread Levels by Sector Versus Historical Tights

◆ 95th Percentile ◆ 12/31/2021 ◆ Latest



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.

Investment Concepts For Discussion Only

Short Duration High Quality Debt:

Examples: **Treasury bills and CDs**, duration inside of 1-year 4.5% plus

Funds: **GBIL** – Goldman Sachs 0-1yr treasuries ~4% yield

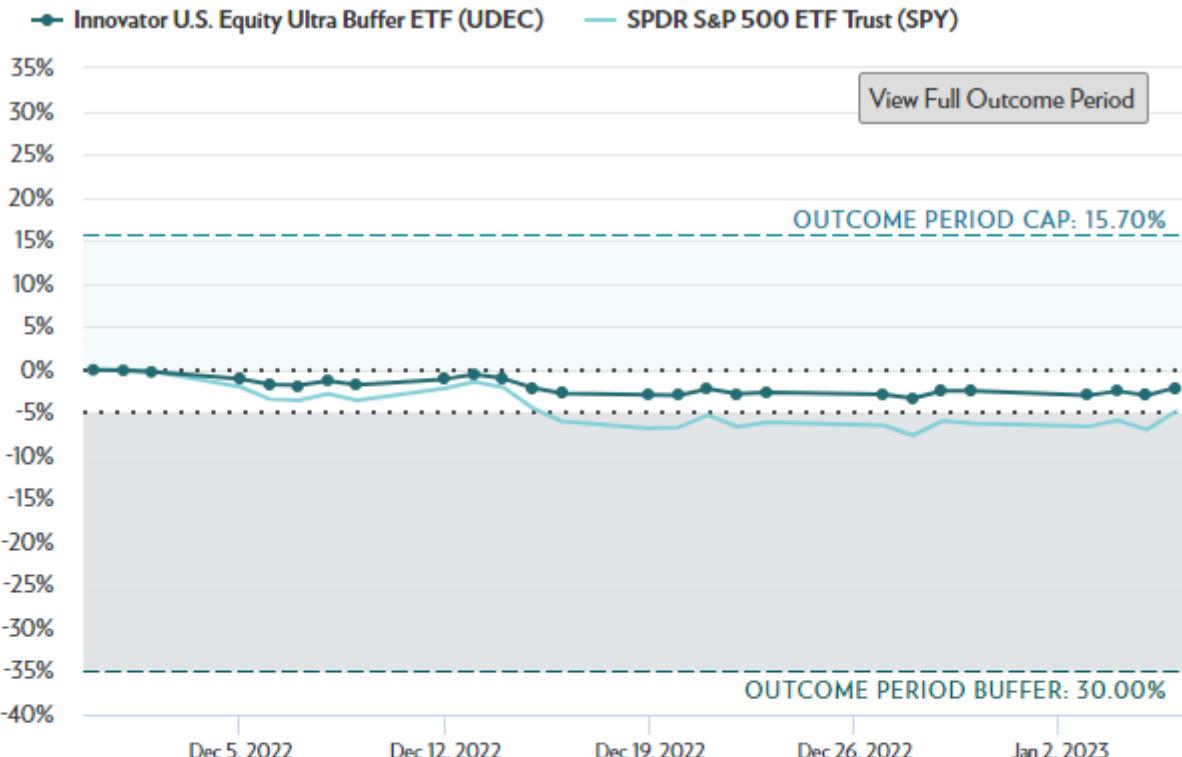
MINT – PIMCO short duration mixed-type bonds ~4.57% yield

MINO – PIMCO municipal bonds ~3.8% yield

Investment Concepts For Discussion Only

Defined Outcome ETFs:

Example: UDEC



CURRENT OUTCOME PERIOD VALUES (CURRENT/NET) <small>①</small>							AS OF 1/6/2023
Fund Price <small>②</small>	Fund Return <small>③</small>	SPY Return <small>④</small>	Remaining Cap <small>⑤</small>	Remaining Buffer <small>⑥</small>	Downside Before Buffer <small>⑦</small>	Remaining Outcome Period <small>⑧</small>	
\$27.53	-2.07%	-4.81%	18.05% / 17.21%	28.64% / 27.93%	-3.07% / -3.79%	328 days	

OUTCOME PERIOD VALUES (CURRENT/NET) <small>①</small>							AS OF 11/30/2022
Fund Price <small>②</small>	Fund Return <small>③</small>	SPY Return <small>④</small>	Cap <small>⑤</small>	Buffer <small>⑥</small>	Downside Before Buffer <small>⑦</small>	Outcome Period <small>⑧</small>	
\$28.11	0.00%	0.00%	15.70% / 14.91%	30.00% / 29.21%	-5.00% / -5.79%	365 days	

Investment Concepts For Discussion Only

Call Write Strategies:

Examples:

JEPI – JPMorgan Equity Premium Income ETF: 2021 +21.5%, 2022 -3.52%, yield 11.8%, portfolio of defensive stocks, 126 stocks.

JEPQ – JPMorgan Nasdaq Equity Premium ETF: Started May 4, 2022, return through 11/30/2022 -5.4%, yield 17.6%, NASDAQ 100 exposure through about 84 stocks.

Investment Concepts For Discussion Only

High Yield Municipal Bonds:

Example: **HIMYX**

Pioneer High Income Muni

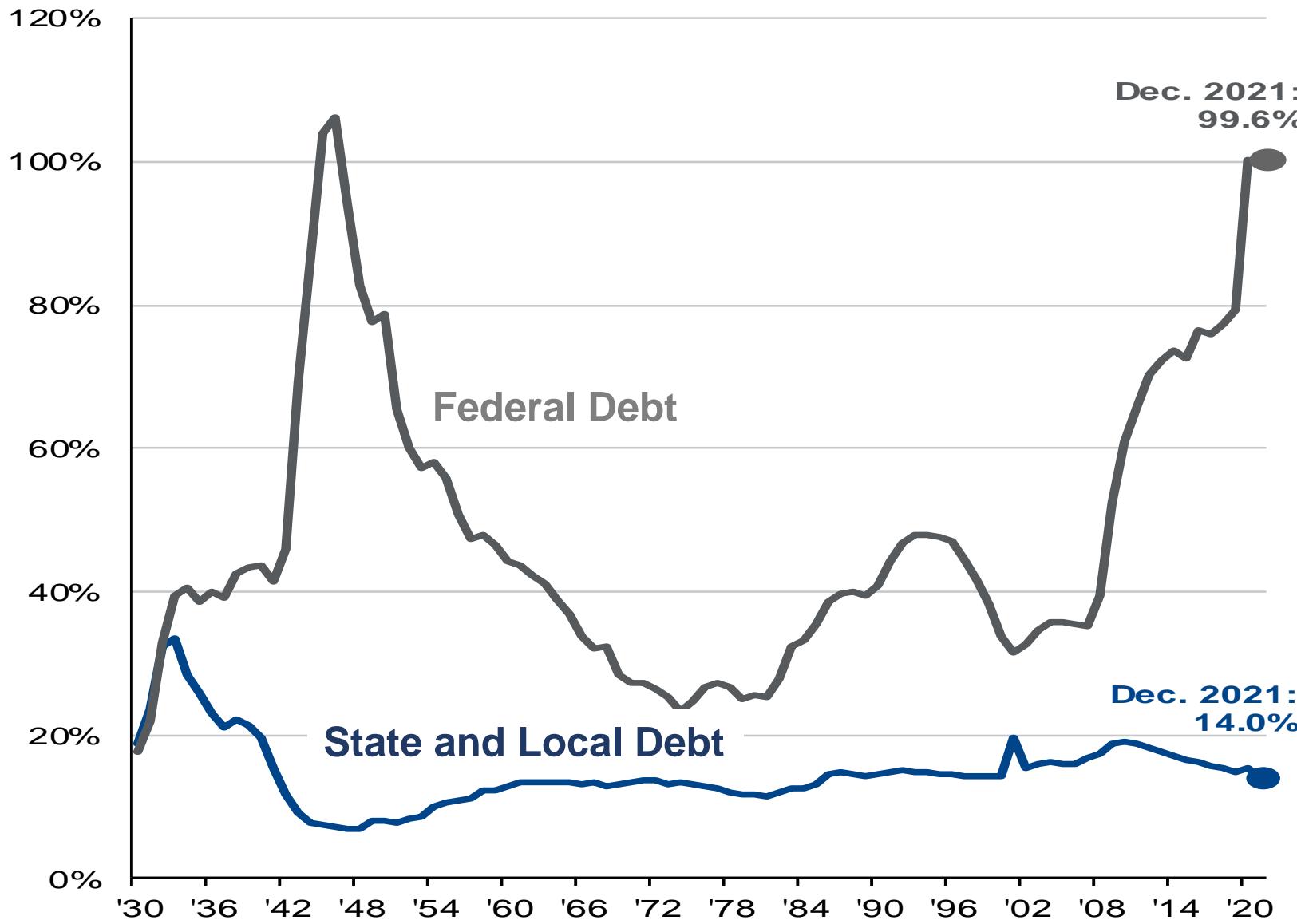
Yield ~5% federal tax free



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.

State, Local and Federal Net Debt

1930 – 2021 % GDP



Investment Concepts For Discussion Only

Commodities:

One EV battery contains

Examples: Fidelity **FFGIX**
Neuberger ETF **NBCM**

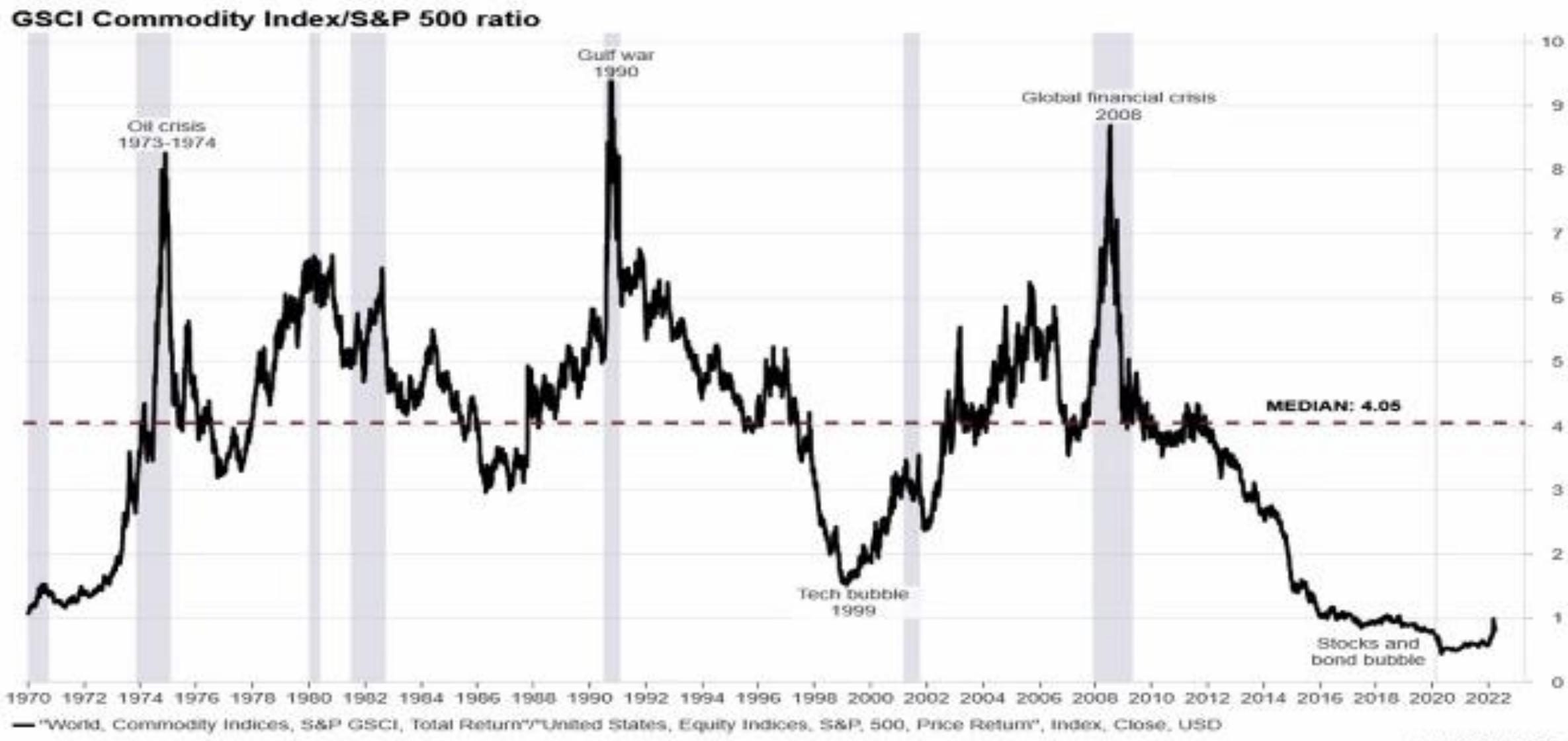
25 pounds of lithium
60 pounds of nickel
44 pounds of manganese
30 pounds of cobalt
200 pounds of copper
400 pounds of aluminum, steel and plastic

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

Commodities are extremely cheap – Ratio ~ 0.90



Investment Concepts For Discussion Only

Diversified Equities:

NASDAQ 100 **QQQ**: 2022 -32.6%, will act like a long-duration bond
Consider using JEPQ for this exposure.

Value Funds: Neuberger Berman Large Value **NBPIX**: 2022 -1.06%,
Percentile Rank 3 and 5 years #1, 10-years #2.

Equal Weight S&P500: **RSP**: 2022 -11.6%

Bullish Equity Considerations

- Both Treasury yields and the credit markets are in a better position than at the end of October
- Corporate bond issuance is off to a big start in 2023 with numbers that rival 2021 and 2022
- Stocks and bonds were dismantled in 2022 leading to very defensive positioning as we start 2023
- China reopening is very bullish as is government's moves to ease their property rules
- Europe's warm winter has crushed energy prices and helped optimism and margins
- The Q4 2022 earnings bar has been set very low. Could a weaker US\$, lower energy/other prices and corner office over-preparedness make for many easy earnings beats?
- The Fed soft landing scenario is gaining a bit of traction
- Ukraine

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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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