

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

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AAII

## 2025 Outlook Positioning for All Scenarios



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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.

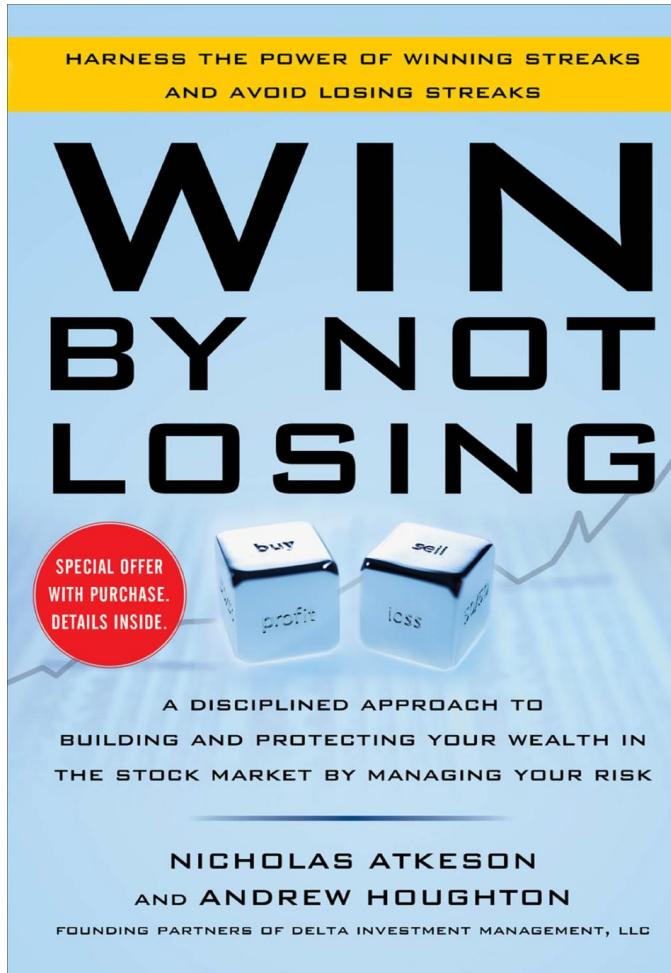
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# Delta Investment Philosophy

- ❖ *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*

# *Win by Not Losing*

Book Available  
On Amazon



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# Weekly Newsletter



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***Delta Insights***

a weekly commentary on investing

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## Data Point to Data Point

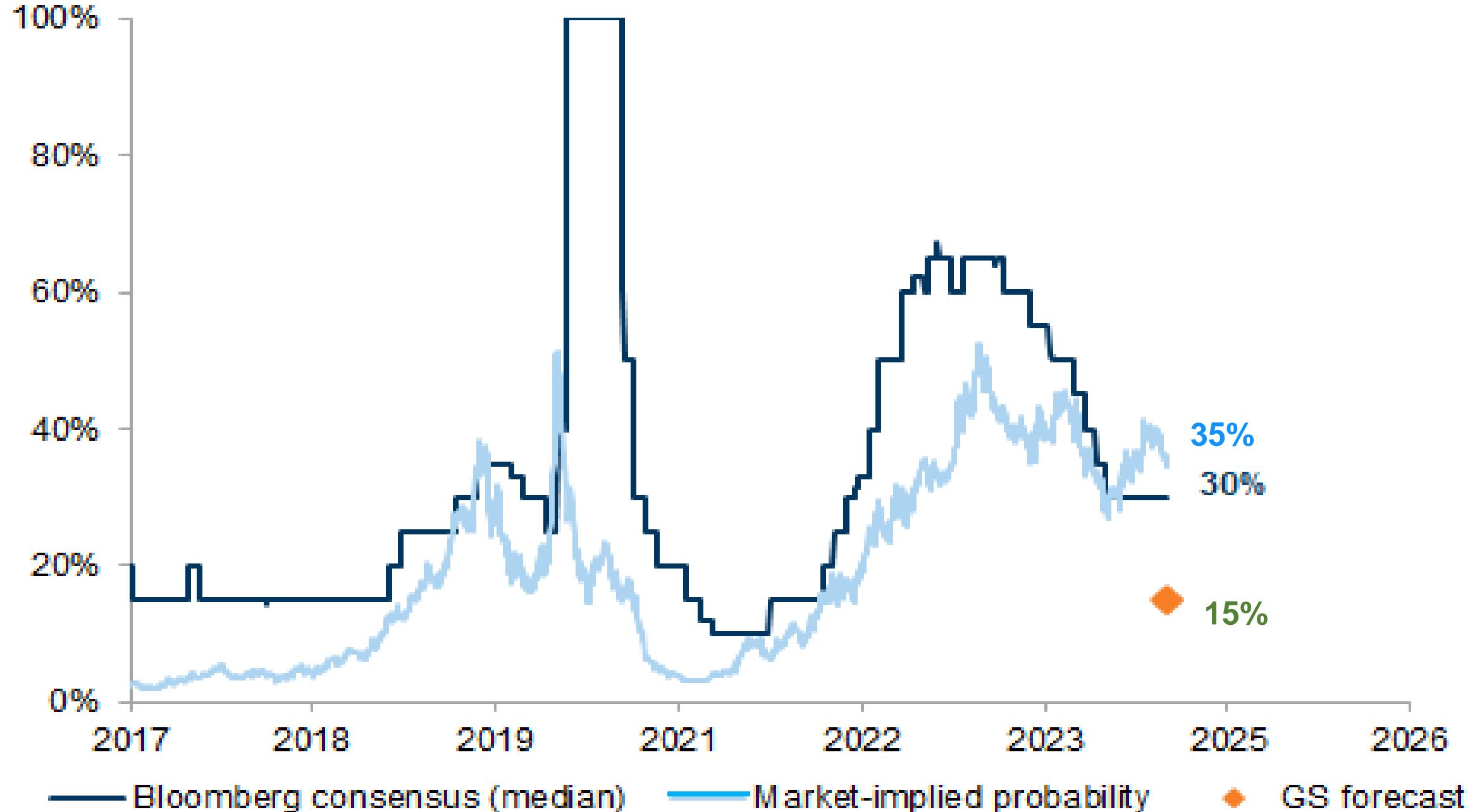
Sept 8, 2023

Dear Nicholas,

Since Covid, macroeconomic forecasts have been mostly wrong. Few expected the market to be up roughly 18% in 2020 after an intra-year decline of 35%. Almost all market strategists forecasted a recession in 2023 and a down market.

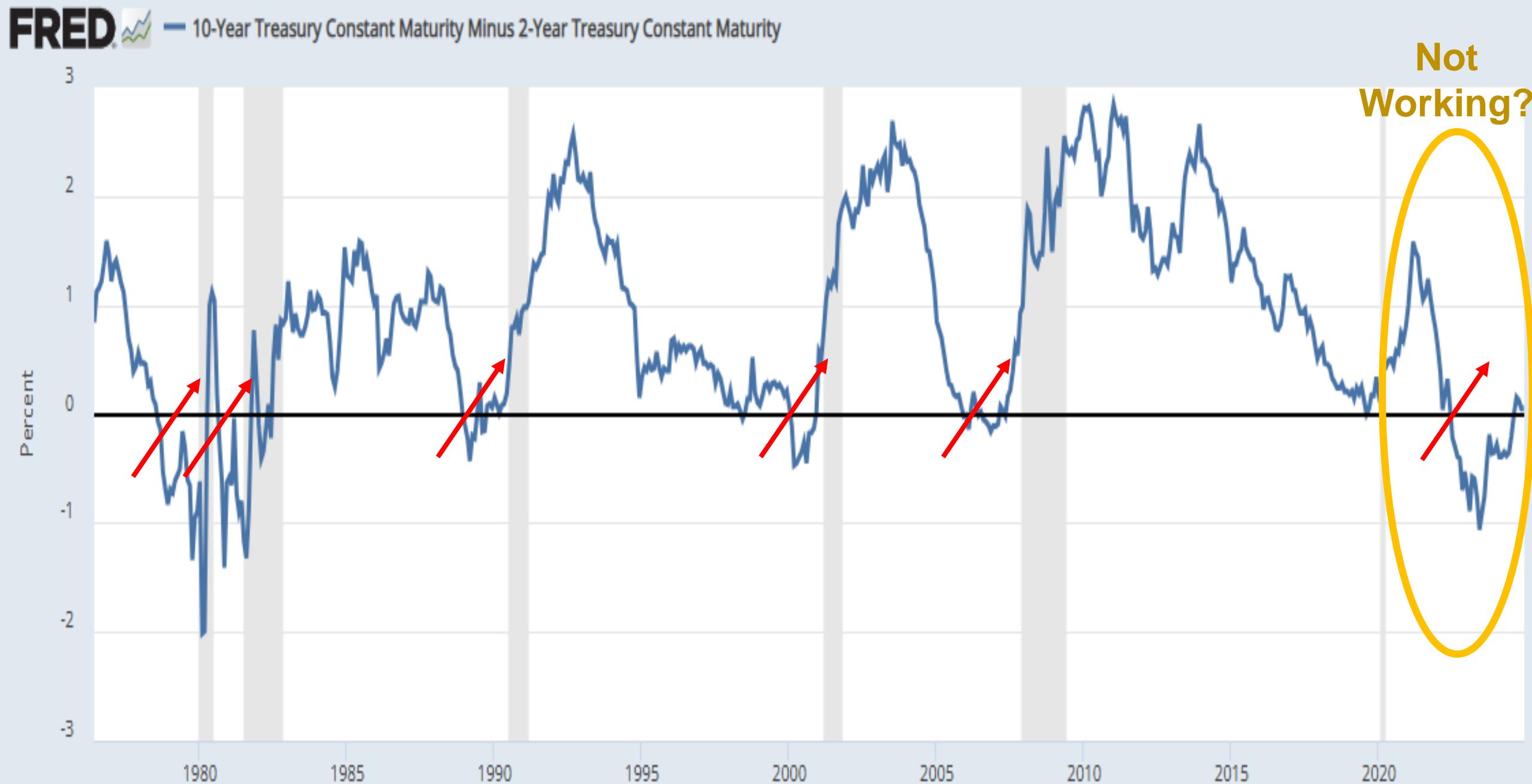
The pandemic and the unprecedented fiscal and monetary responses to it are driving unexpected stock market and economic outcomes. Because the market has been so hard to accurately predict, the Fed and many investors are highly data point driven. It is somewhat like navigating through a dark room on the basis of what you bump into.

# Probability of a US Recession In The Next Year



The Two Most Robust Recessions Indicators  
are the U.S. Treasury Yield Curve and the  
Leading Economic Index (LEI)

# Treasury Yield Curve Inversions and Recessions



Since its inception in the 1960s, the LEI has neither failed to signal an eventual recession (a type 2 error) nor suggested there would be a recession that never came (a type 1 error). It is a perfect 8-for-8.

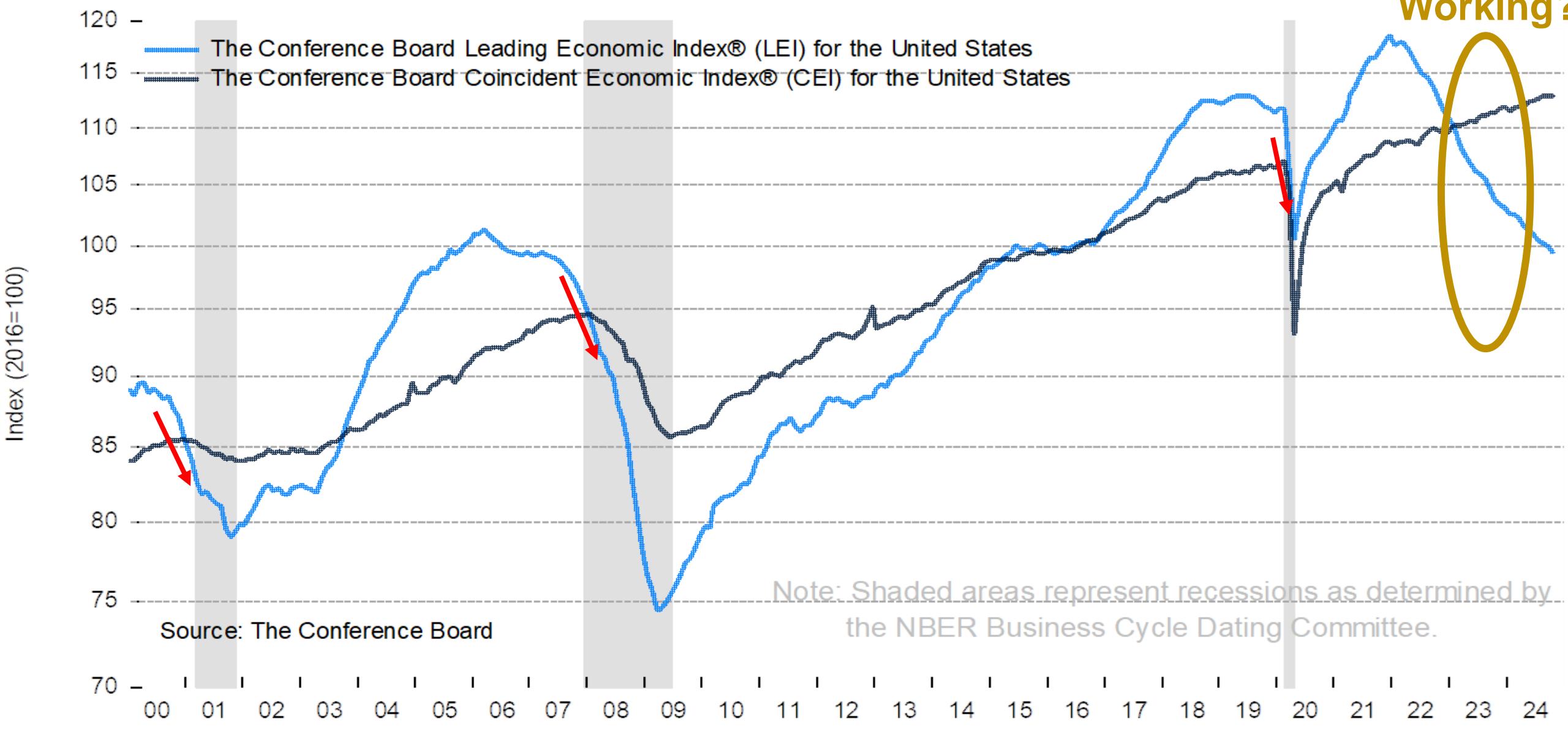
# Leading Economic Index (LEI) and Recessions

Peak: 01:3  
Trough: 01:11

07:12  
09:6

20:2  
20:4

Not  
Working?

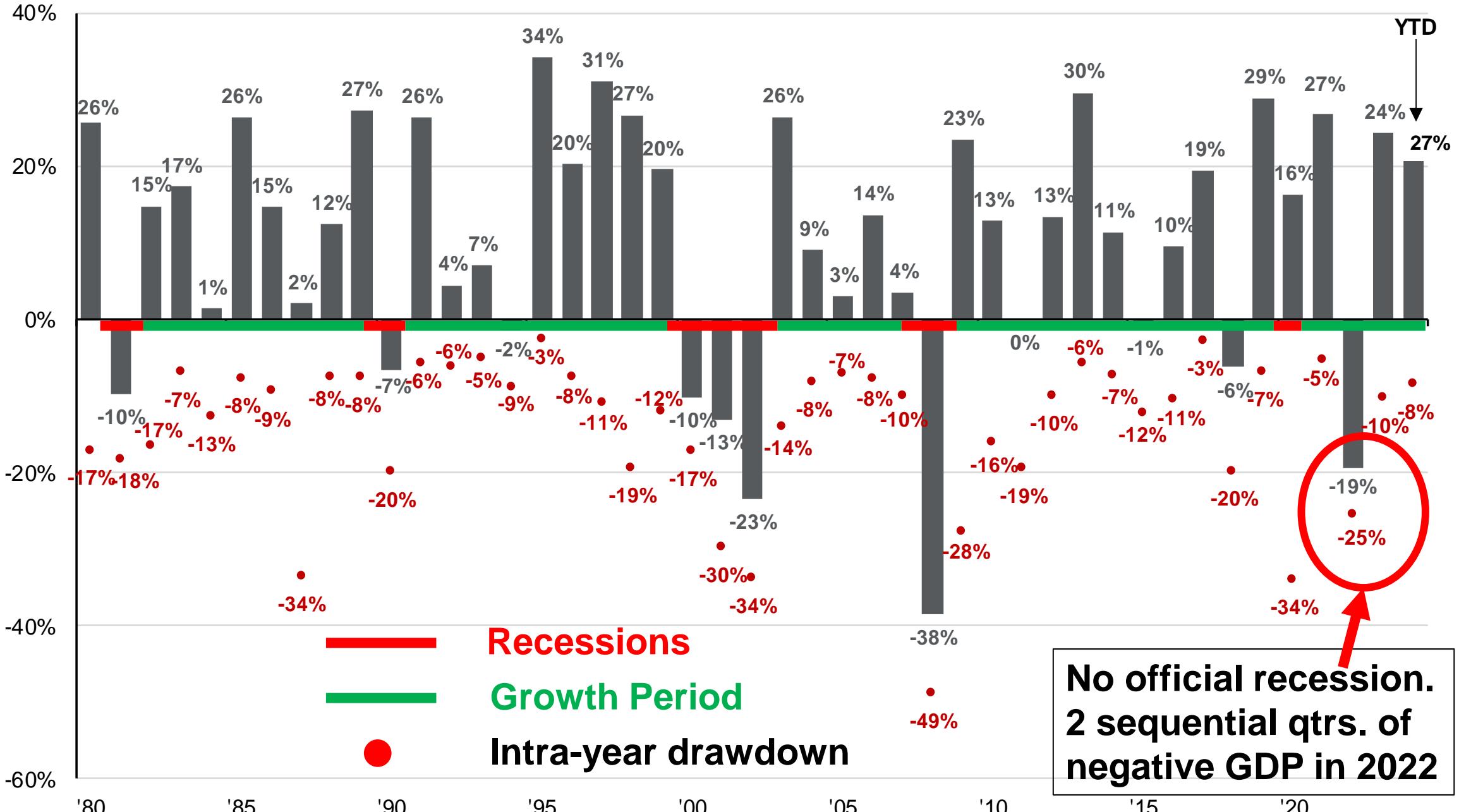


# Why Do We Care About Forecasting Recessions?

Answer:

1. The stock market behaves very differently During Recessions, and
2. Not much else matters from a forecasting standpoint.

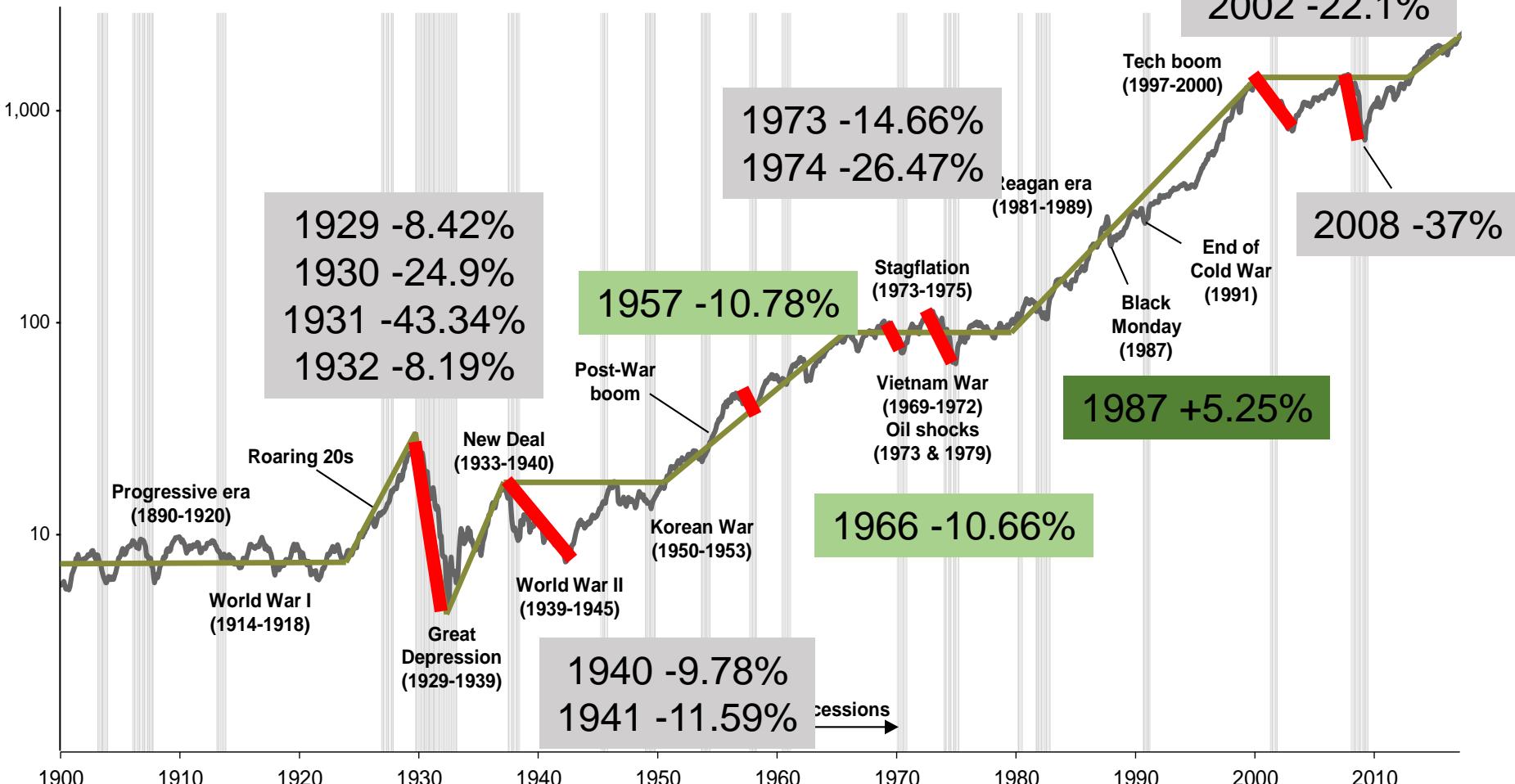
# S&P 500 Calendar Year Returns W/O Dividends



# Losses Concentrated

## S&P Composite Index

Log scale, annual



DELT  
INVESTMENT  
MANAGEMENT

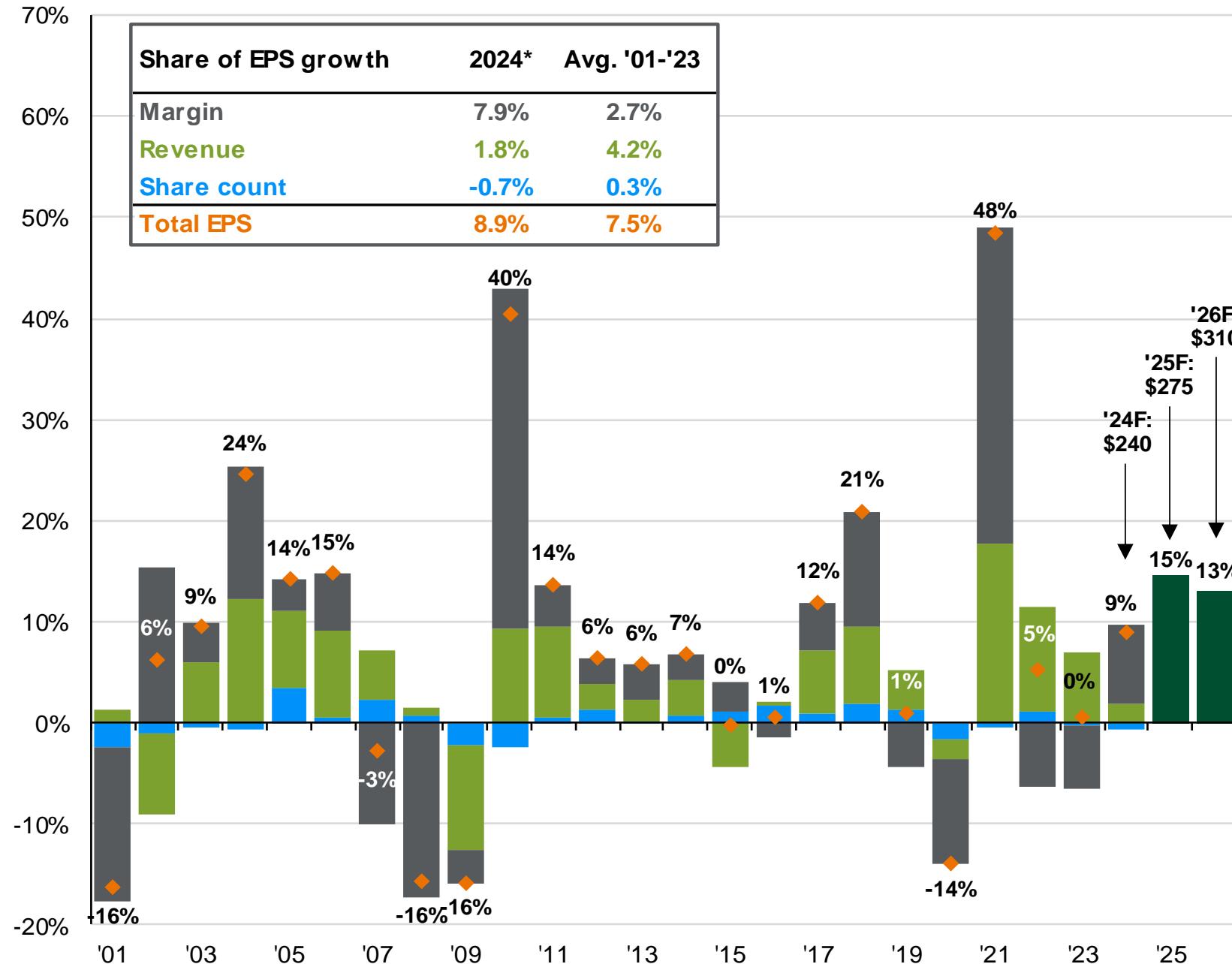
# S&P 500 Performance After Gaining More Than 35% In The Last 12 Months\*

Date	S&P 500 12-Mo. Gain	S&P 500 Forward Performance				Business Cycle Peak In Next 12 Mos.?
		1-Mo %	3-Mo %	6-Mo %	12-Mo %	
March 30, 1928	37.3	3.2	0.3	11.7	33.5	No
April 30, 1933	42.7	15.9	19.6	7.7	25.7	No
October 31, 1935	41.4	3.9	14.8	10.5	38.1	No
March 31, 1943	44.6	0.1	6.6	4.3	3.8	No
January 31, 1946	37.9	-6.9	1.0	-3.3	-15.7	No
September 30, 1954	38.4	-1.9	11.4	13.2	35.2	No
December 31, 1958	38.1	0.4	0.4	5.9	8.5	No
June 30, 1971	37.1	-4.1	-1.4	2.4	7.5	No
March 31, 1983	36.6	7.5	9.9	8.6	4.1	No
September 30, 1987	39.1	-21.8	-23.2	-19.6	-15.5	No
January 30, 1996	35.2	0.7	2.9	0.6	23.6	No
July 31, 1997	49.1	-5.7	-4.2	2.7	17.4	No
August 31, 1999	37.9	-2.9	5.2	3.5	14.9	No
February 27, 2004	36.1	-1.6	-2.1	-3.6	5.1	No
February 26, 2010	50.3	5.9	-1.4	-5.0	20.2	No
March 31, 2021	53.7	5.2	8.2	8.4	14.0	No
October 31, 2024	36.0	?	?	?	?	?
<b>Average</b>	41.0	<b>-0.1</b>	<b>3.0</b>	<b>3.0</b>	<b>13.8</b>	<b>No peaks within</b>
<b>Avg., All Periods</b>	<b>8.4</b>	<b>0.7</b>	<b>2.0</b>	<b>4.1</b>	<b>8.4</b>	<b>next 12 months.</b>

\*12-month gain must have been below 35% for each of the previous 12 months.

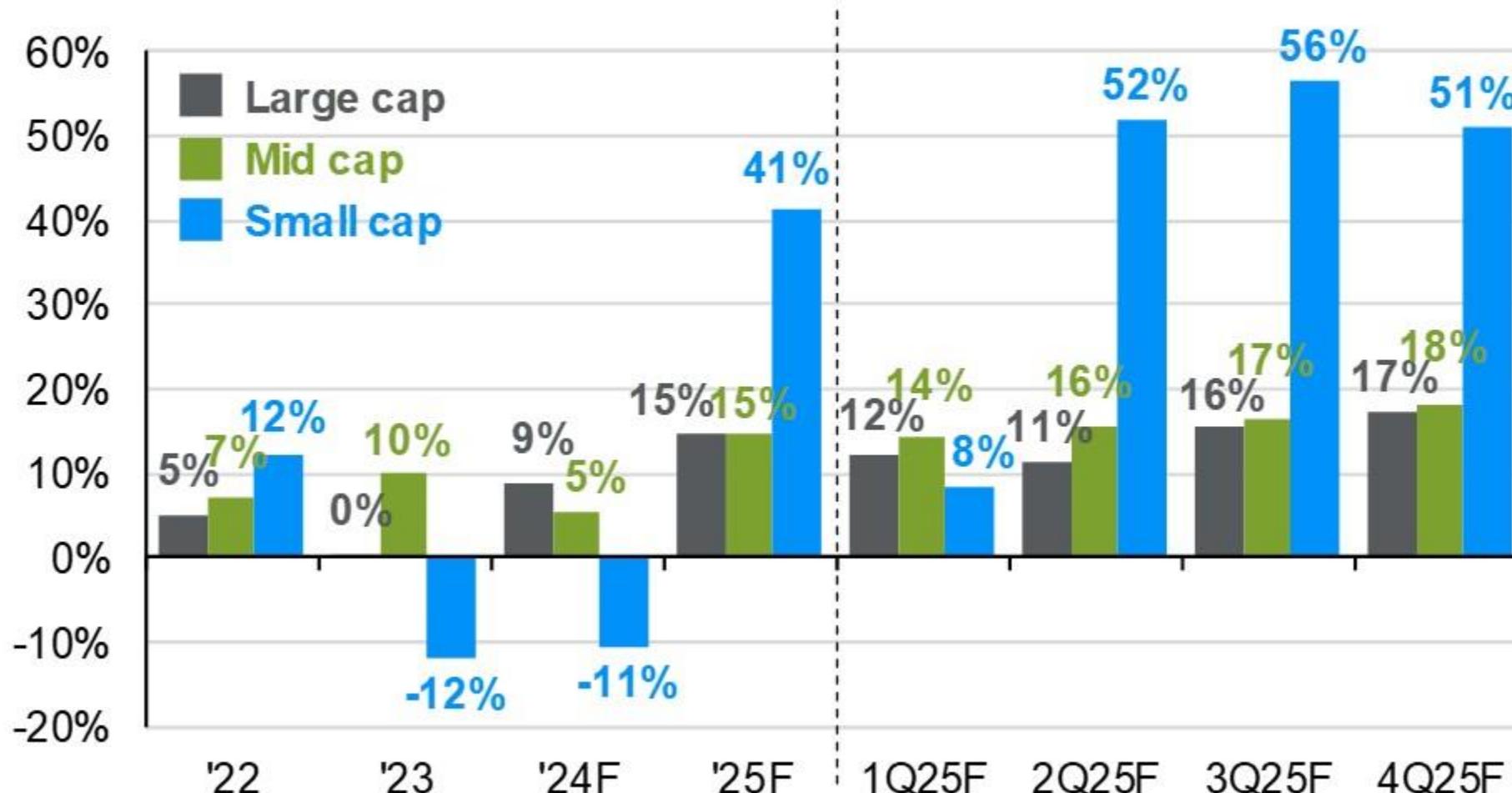
## S&P 500 year-over-year pro-forma EPS growth

Annual growth broken into changes in revenue, profit margin and share count



# Earnings Growth

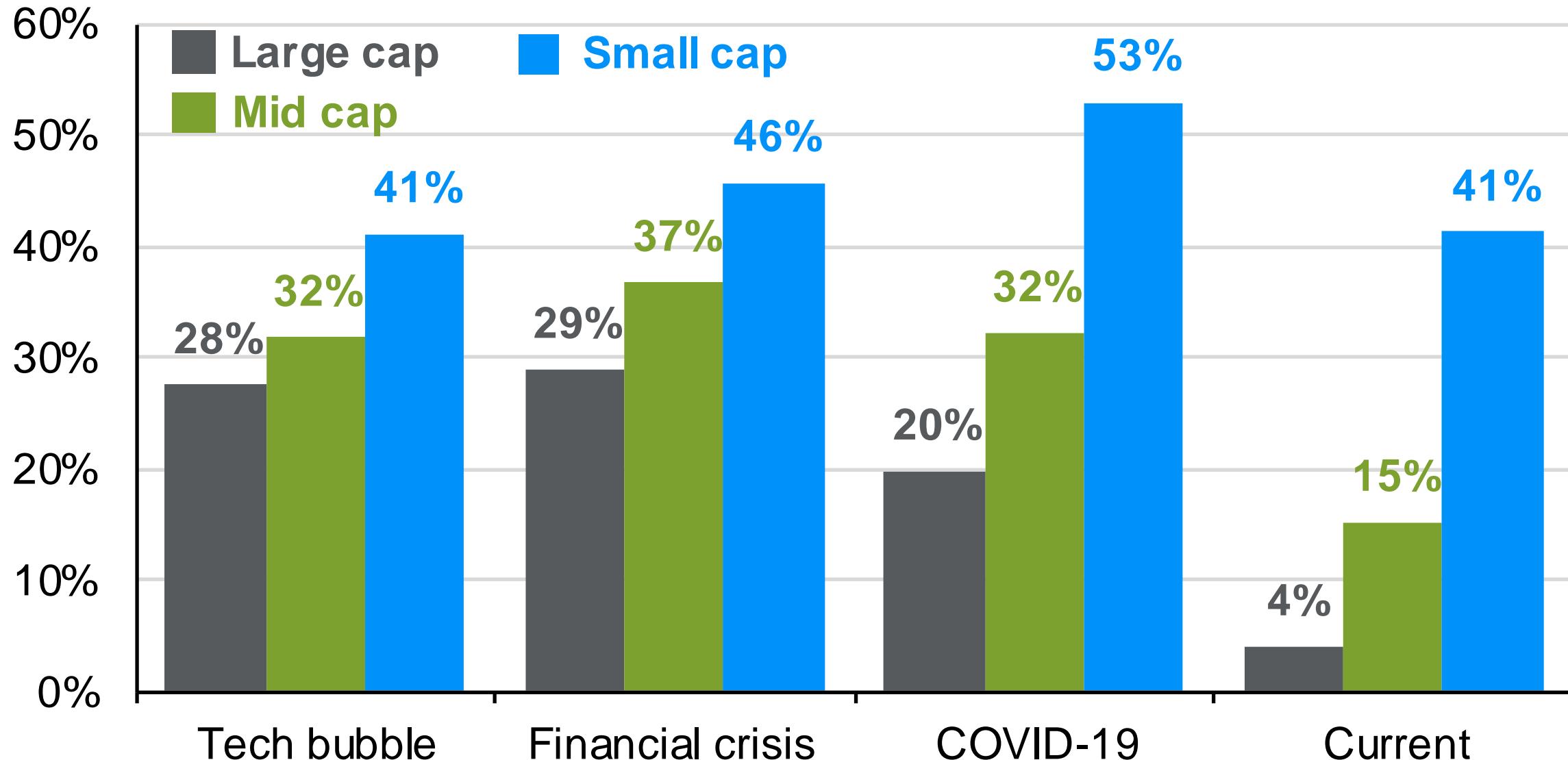
Pro-forma EPS Year-over-Year



Source: JP Morgan Asset Management

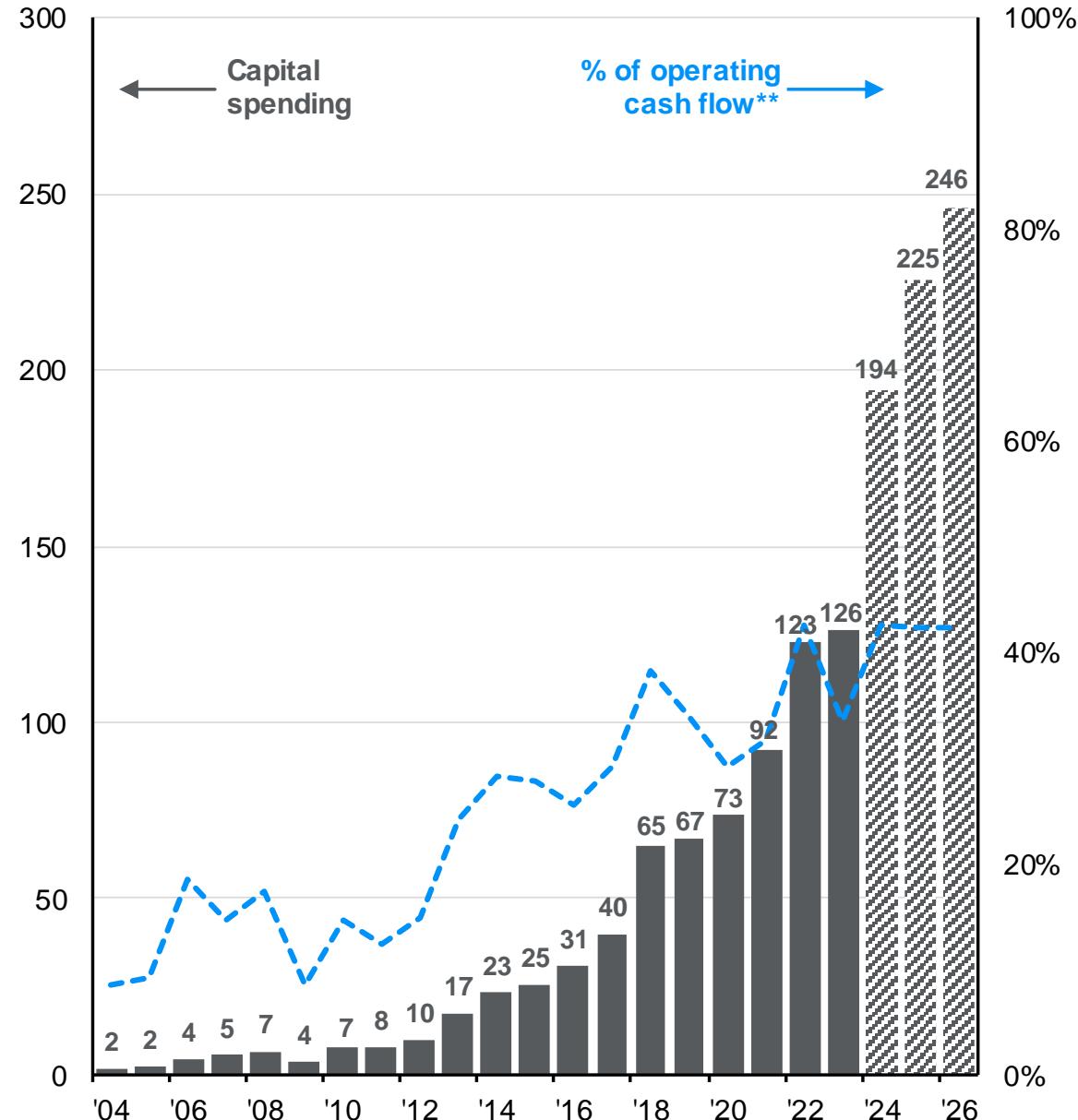
# Percent of unprofitable companies

Pro-forma EPS



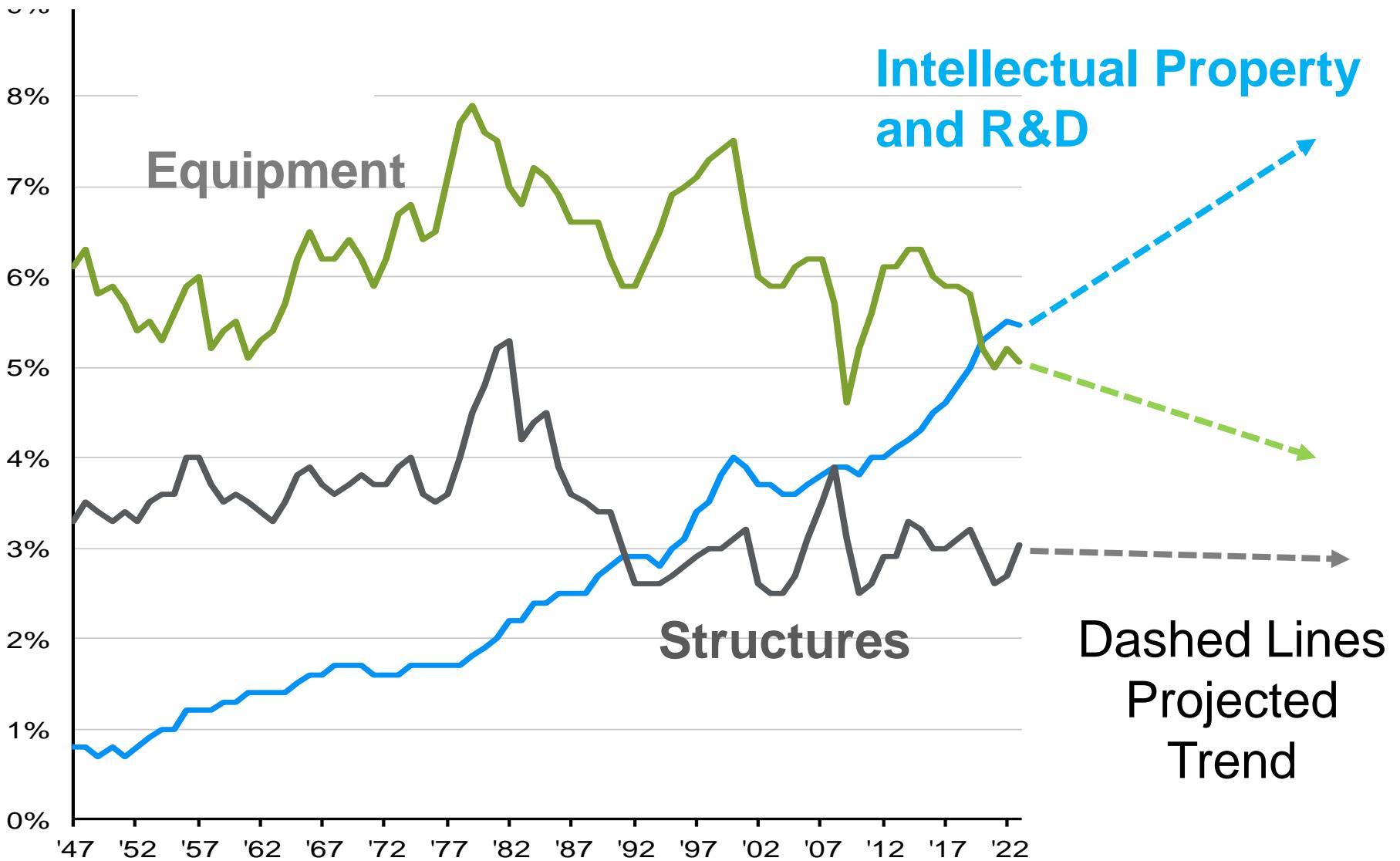
## Capex from the major AI hyperscalers\*

USD billions; Alphabet, Amazon (AWS), Meta, Microsoft, Oracle



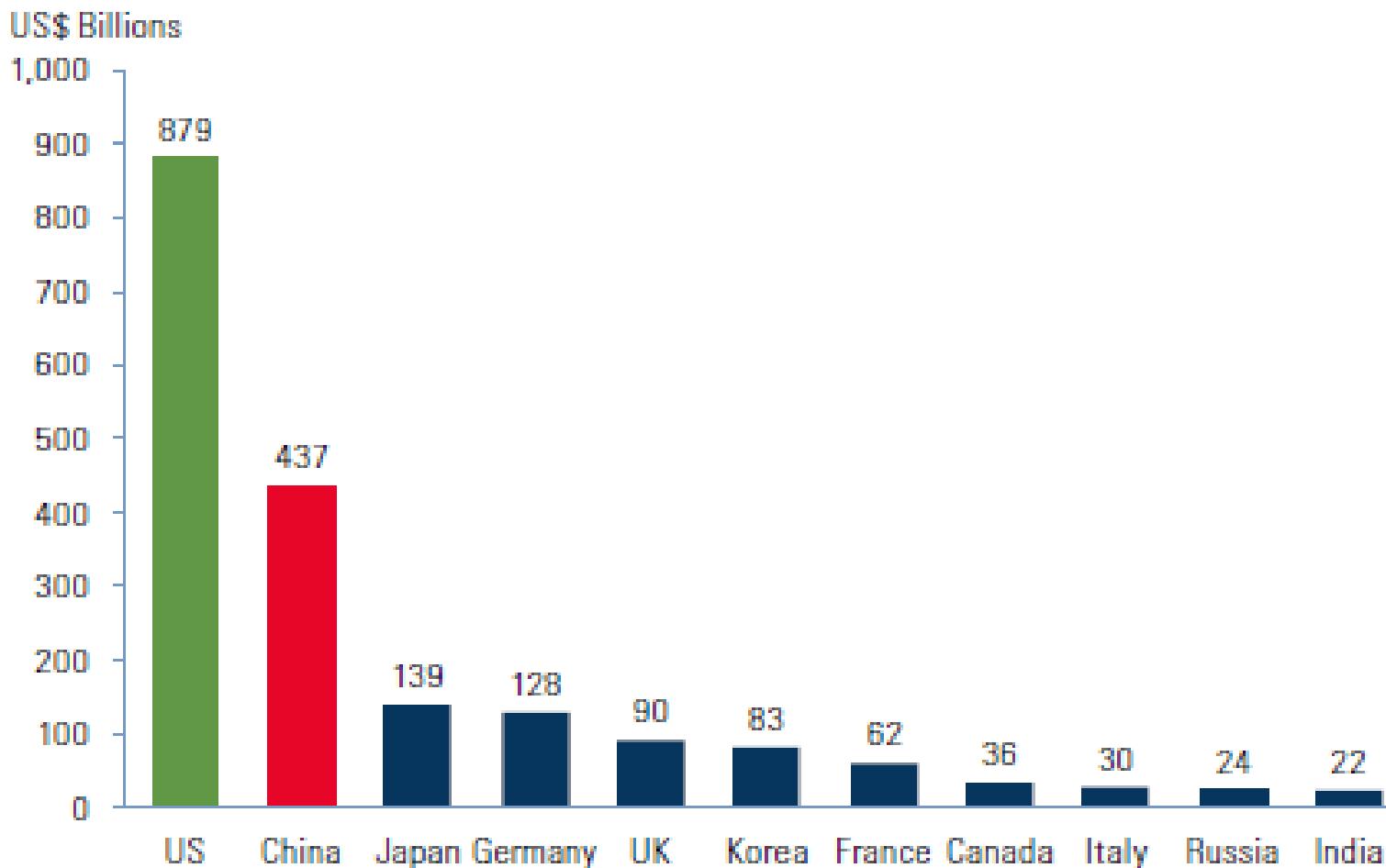
# Capital Spending Components

Share of Capital Spending As a Percent of GDP, annual



# Countries Ranked by R&D Spending

The US spent \$879 billion in 2022 on research, which is more than the next five countries combined.



Data as of 2022.

Source: Investment Strategy Group, Haver Analytics.

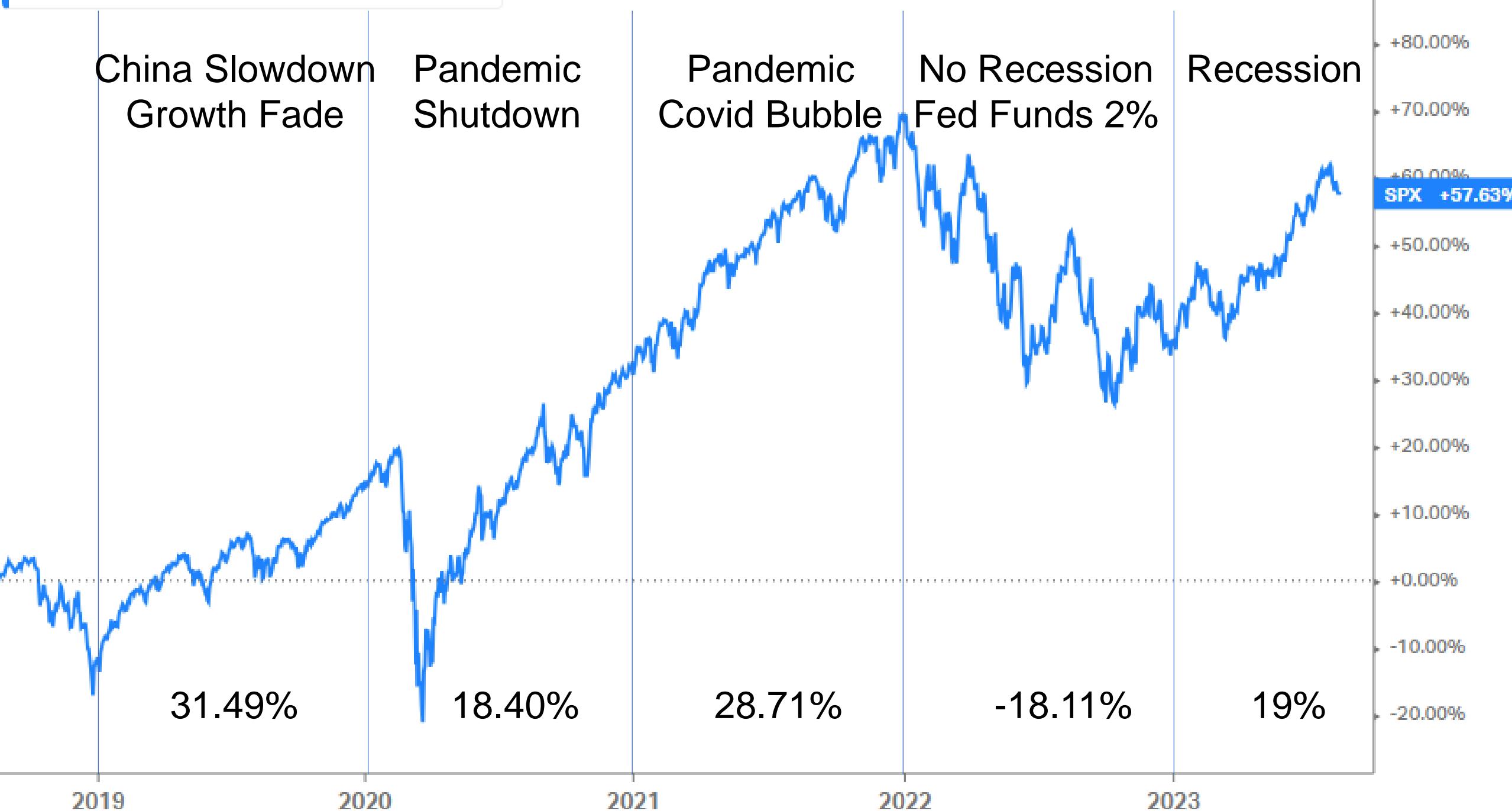
# High Yield Credit Spread



— ICE BofA US High Yield Index Option-Adjusted Spread



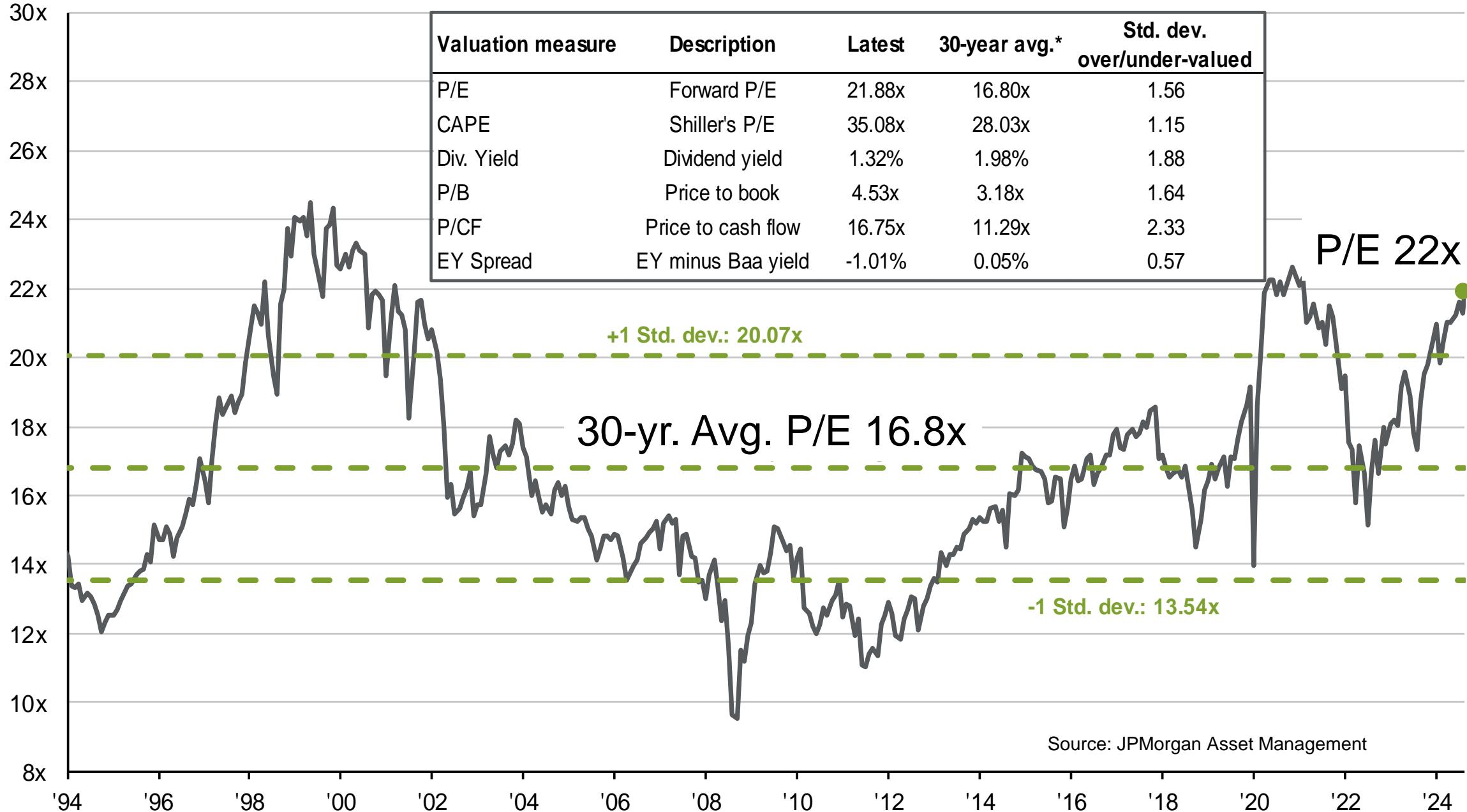
SPX S&P 500 57.63% (9.52% CAGR 5.01 years) 



## **Most Obvious Negatives**

- High Valuation
- Market Concentration
- Exuberance

# S&P 500 Valuation; Forward P/E Ratio



## 4<sup>th</sup> highest S&P 500 trailing P/E in past 124 years

### S&P 500 Trailing P/E



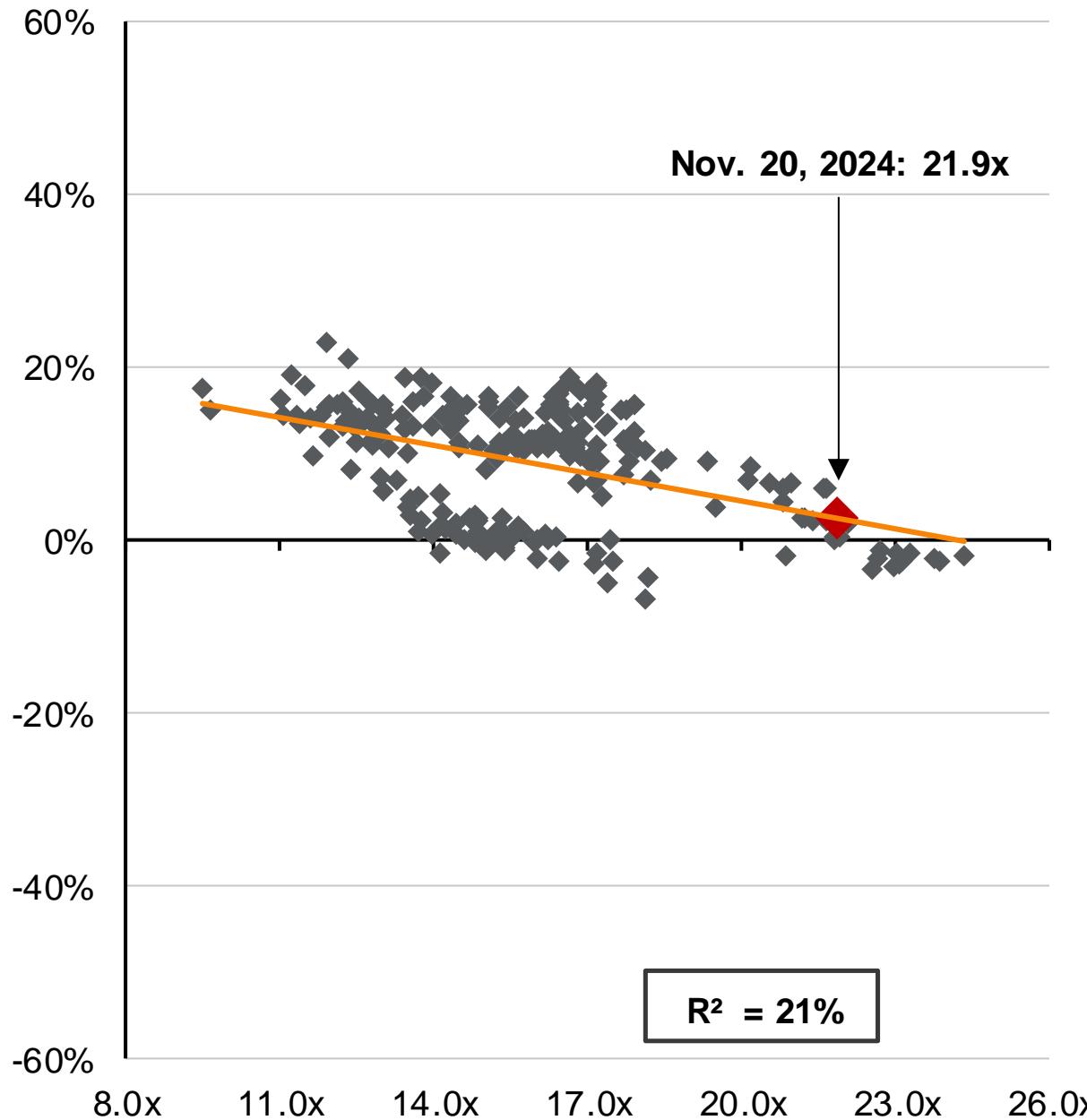
**Source:** BofA Global Investment Strategy, Bloomberg. Trailing 4Q PE (GAAP until 1960, Pro-forma thereafter).

# Equity Risk Premium

	Stock Price	Earnings	Risk Free Rate	Risk Premium	
2024	6,040.00	245.40	5.00%	-0.9%	TBD
2023	4,769.83	220.72	5.33%	-0.7%	
2022	3,839.50	219.19	4.00%	1.7%	
2021	4,766.18	208.49	5.00%	-0.6%	
2020	3,756.07	140.46	0.09%	3.6%	
2019	3,220.00	163.13	1.58%	3.5%	
2018	2,767.00	162.65	1.30%	4.6%	
2017	2,673.61	131.45	0.54%	4.4%	
2016	2,238.43	118.24	0.24%	5.0%	
2015	2,043.94	106.32	0.12%	5.1%	
2014	2,058.90	113.01	0.09%	5.4%	
2013	1,848.36	107.30	0.16%	5.6%	
2012	1,426.19	96.82	0.07%	6.7%	
2011	1,257.60	96.44	0.18%	7.5%	
2010	1,257.64	83.77	0.12%	6.5%	
2009	1,115.10	56.86	0.16%	4.9%	
2008	903.25	49.51	4.24%	1.2%	-37%
2007	1,468.36	82.54	5.24%	0.4%	
2006	1,418.30	87.72	4.16%	2.0%	
2005	1,248.29	76.45	2.16%	4.0%	
2004	1,211.92	67.68	0.98%	4.6%	
2003	1,111.91	54.69	1.24%	3.7%	
2002	879.82	46.04	1.82%	3.4%	-22.10%
2001	1,148.09	38.85	6.40%	-3.0%	-11.89%
2000	1,320.28	56.13	5.30%	-1.0%	-9.10%

## Forward P/E and subsequent 5-yr. annualized returns

S&P 500 Total Return Index



# Weight of the top 10 stocks in the S&P 500

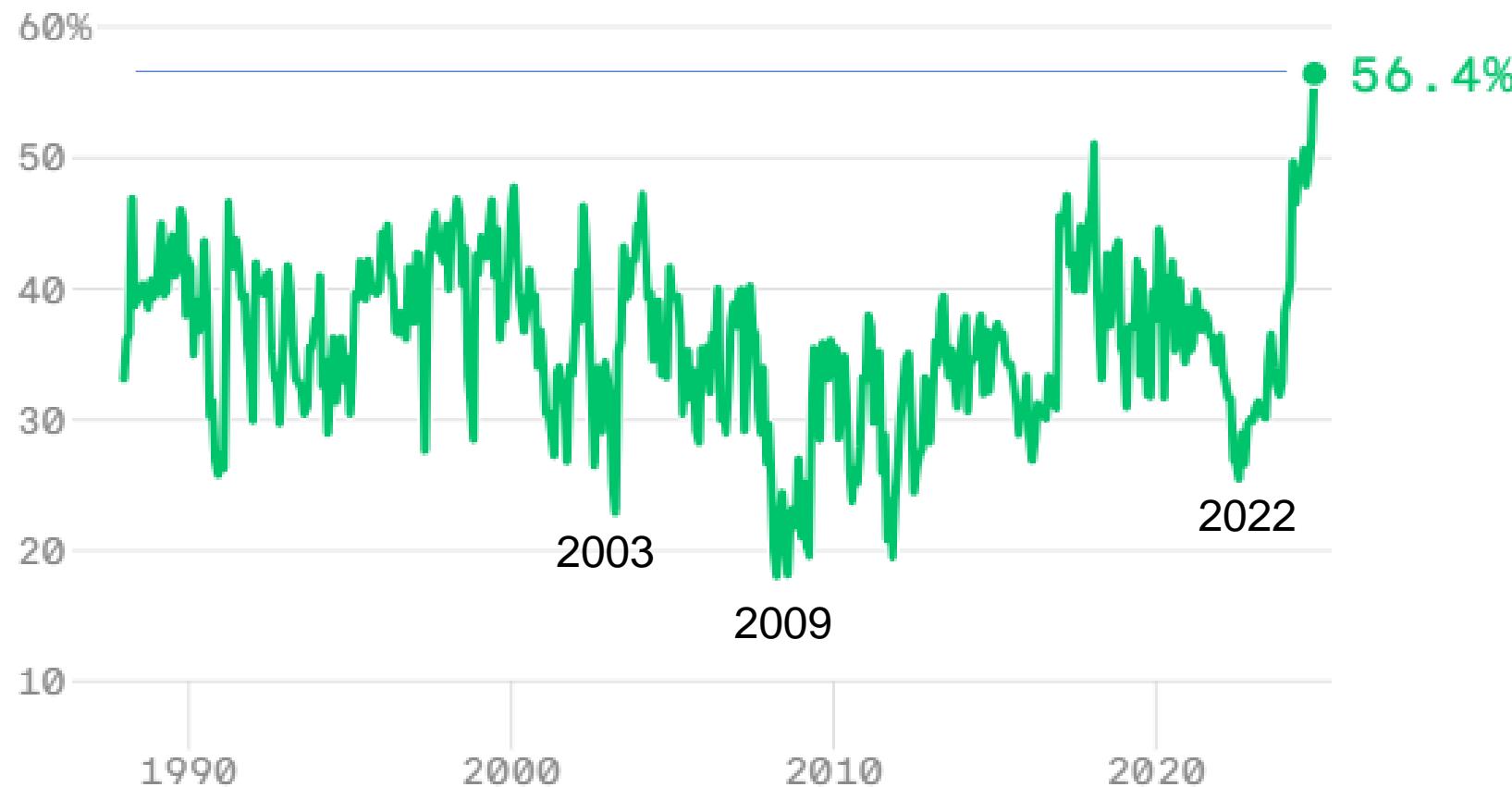
% of market capitalization of the S&P 500



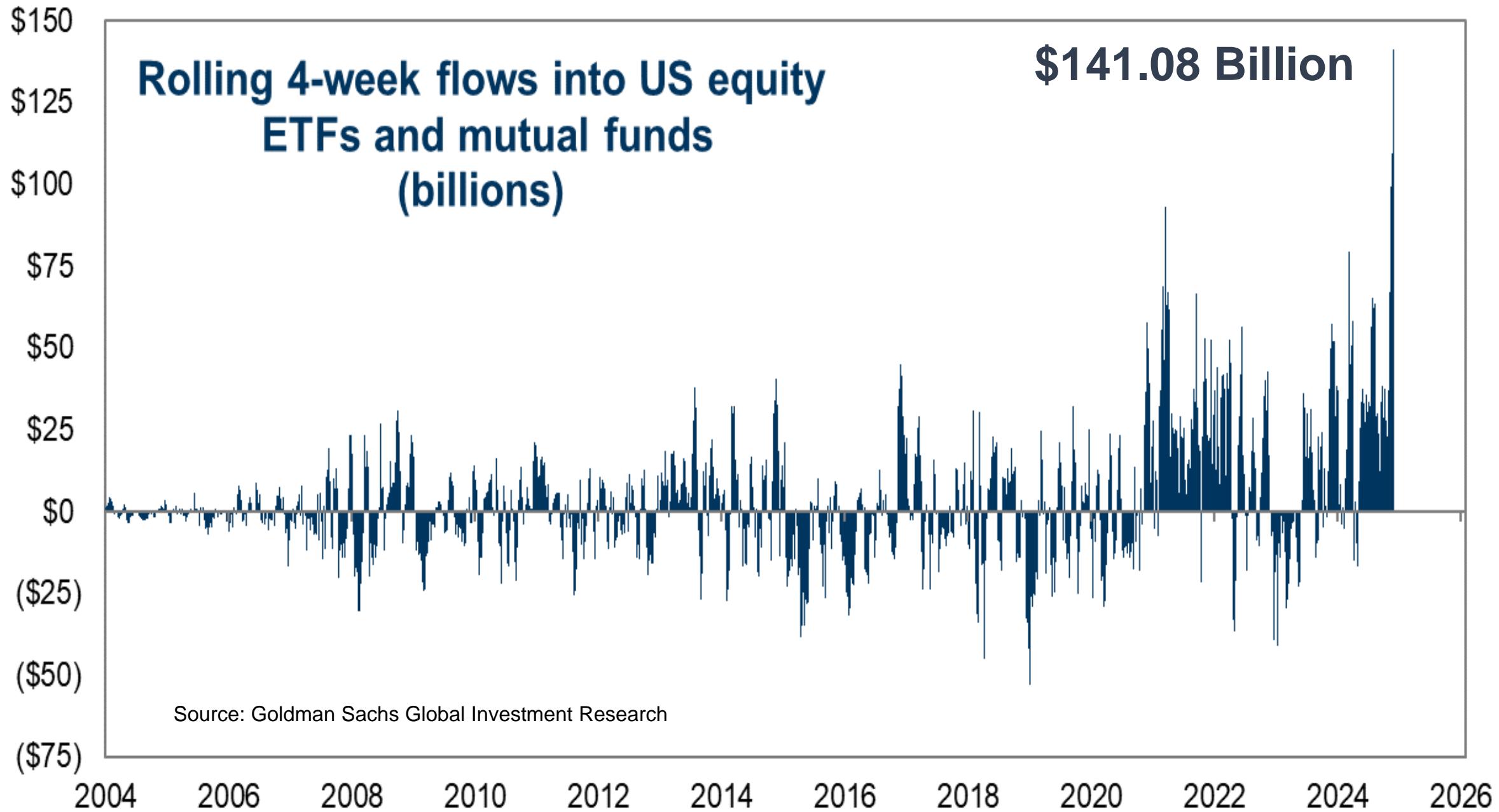
Nov. 20, 2024: 36.8%

# Share of Americans who say they think stock prices will increase in the year ahead

Monthly surveys of 3,000 U.S. adults from December 1987 to November 2024; Most recently conducted in November 2024 with preliminary results



# U.S. Equity Inflows





Jun 5 2024 - Dec 6 2024

6M ▾

Daily ▾

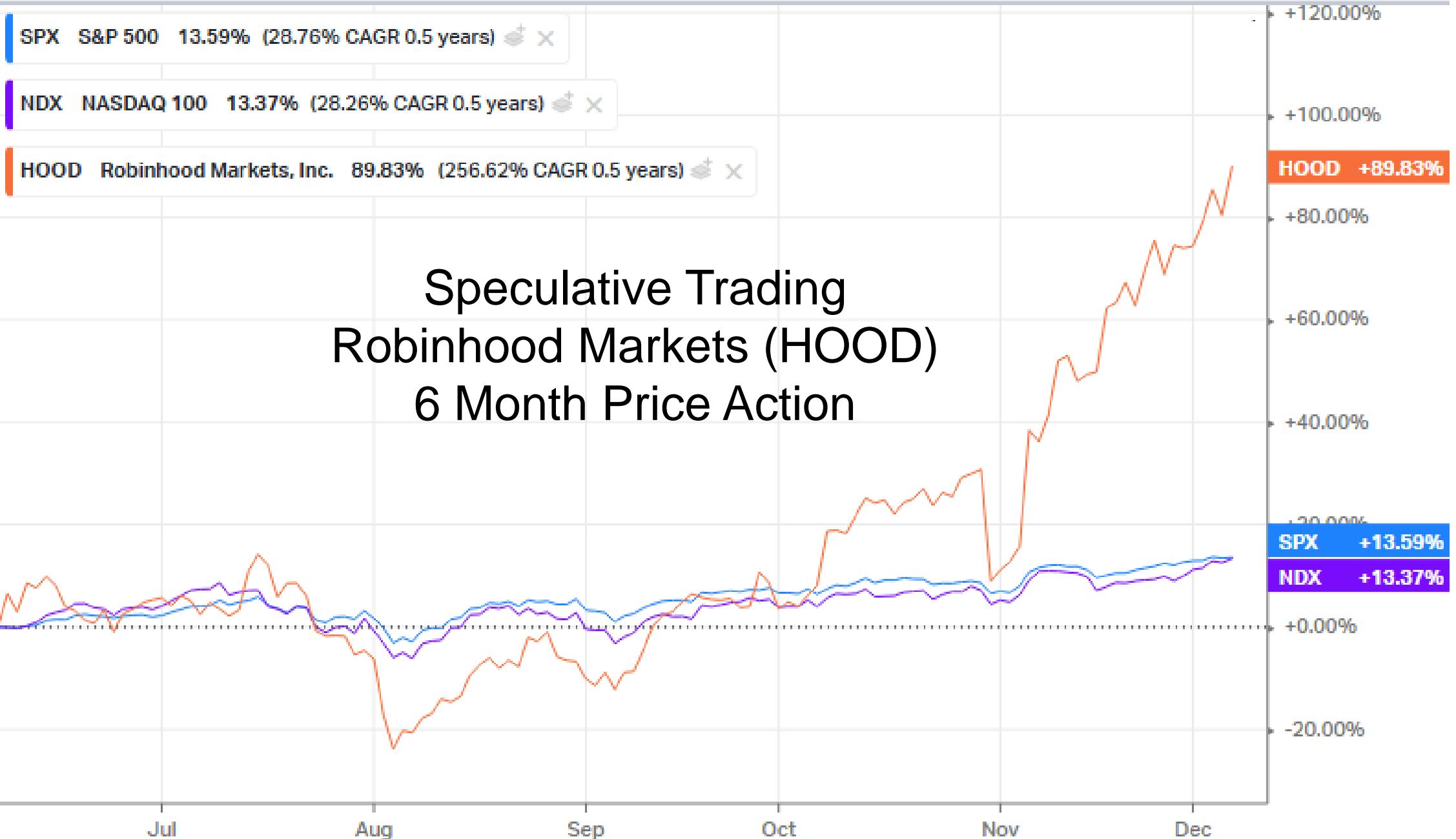
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**SPX** S&P 500 13.59% (28.76% CAGR 0.5 years) **NDX** NASDAQ 100 13.37% (28.26% CAGR 0.5 years) **HOOD** Robinhood Markets, Inc. 89.83% (256.62% CAGR 0.5 years) 

# Speculative Trading Robinhood Markets (HOOD) 6 Month Price Action

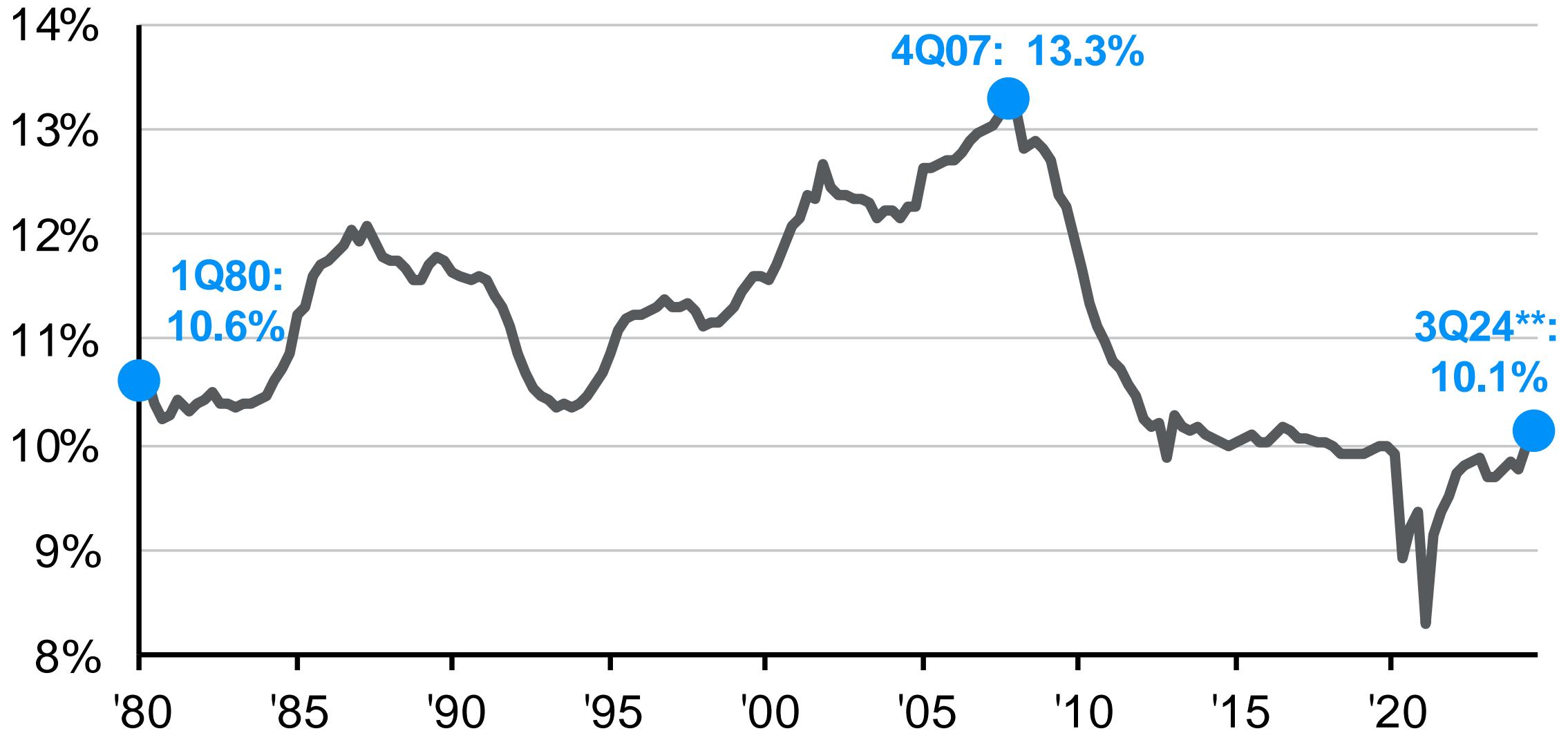


## **Economic Negatives:**

- Stretched Consumer – rising debt levels, falling savings rate
- Fiscal deficits – higher taxes, lower government spending
- Rate cuts by Federal Reserve less than expected – stubbornly high inflation, better than expected growth
- Labor market cooling
- China economic fundamentals slowing – large erosion of wealth from falling house prices

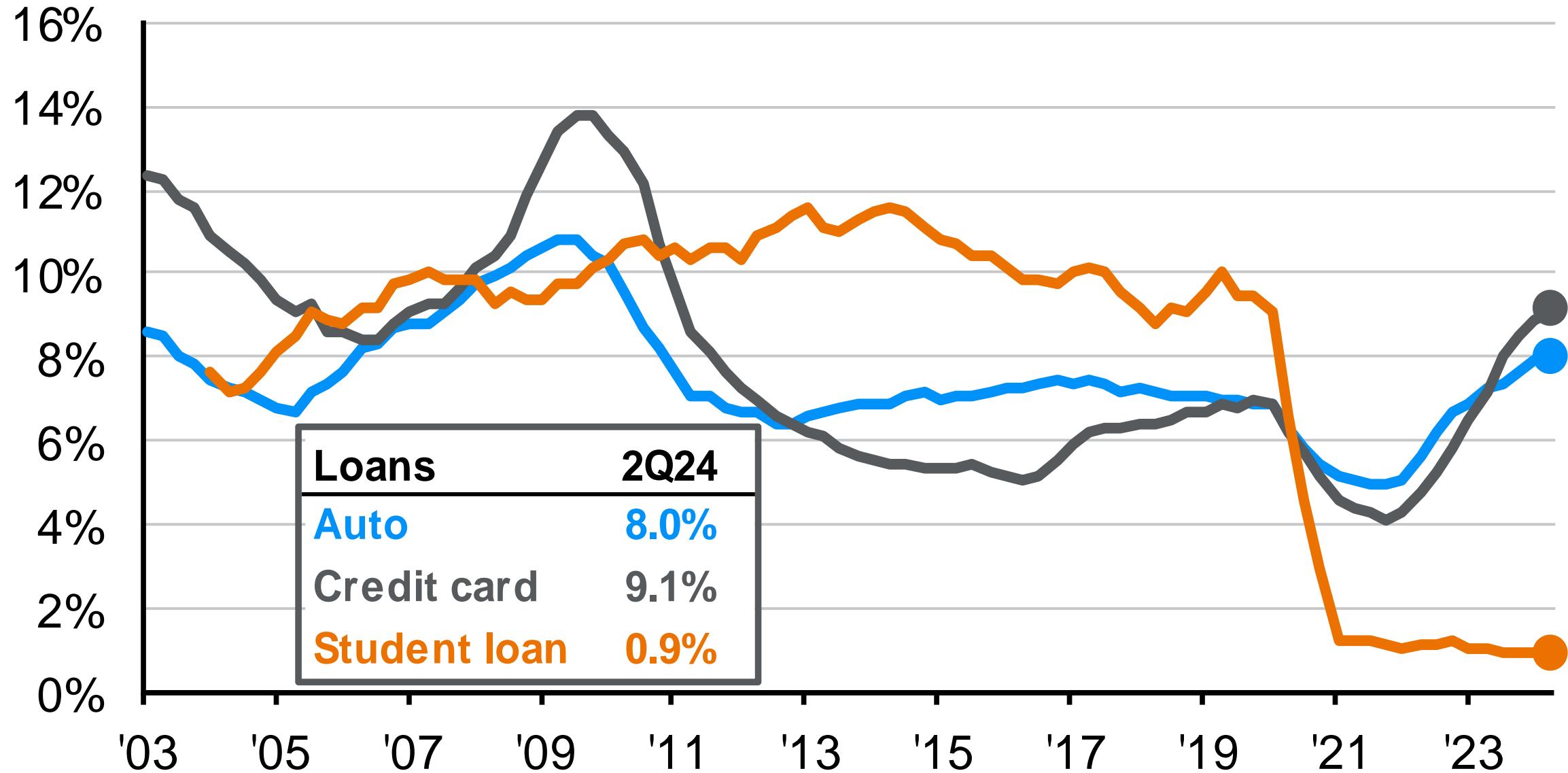
# Household debt service ratio

Debt payments as % of disposable personal income, SA



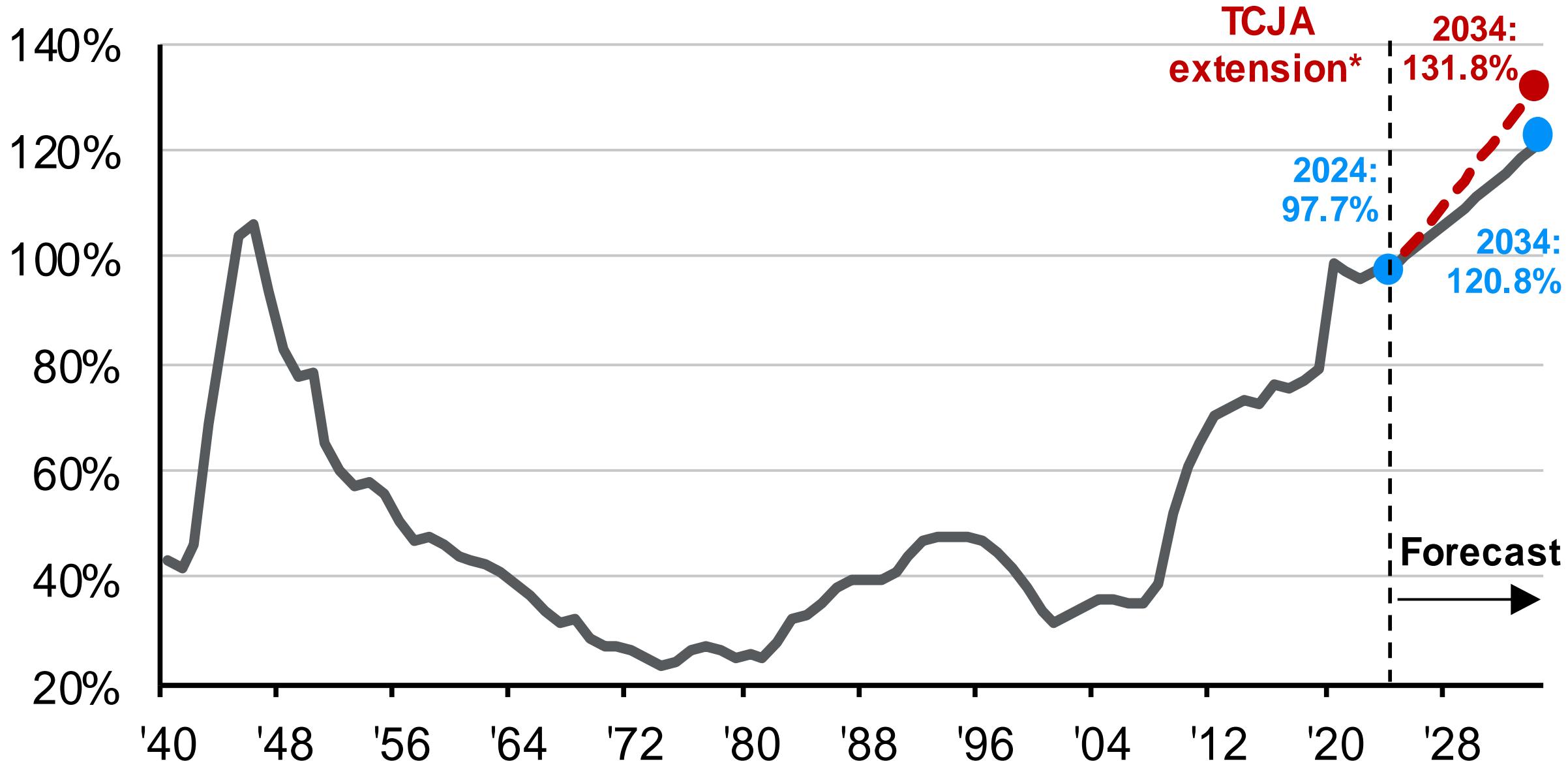
# Flows into early delinquencies

% of balance delinquent 30+ days

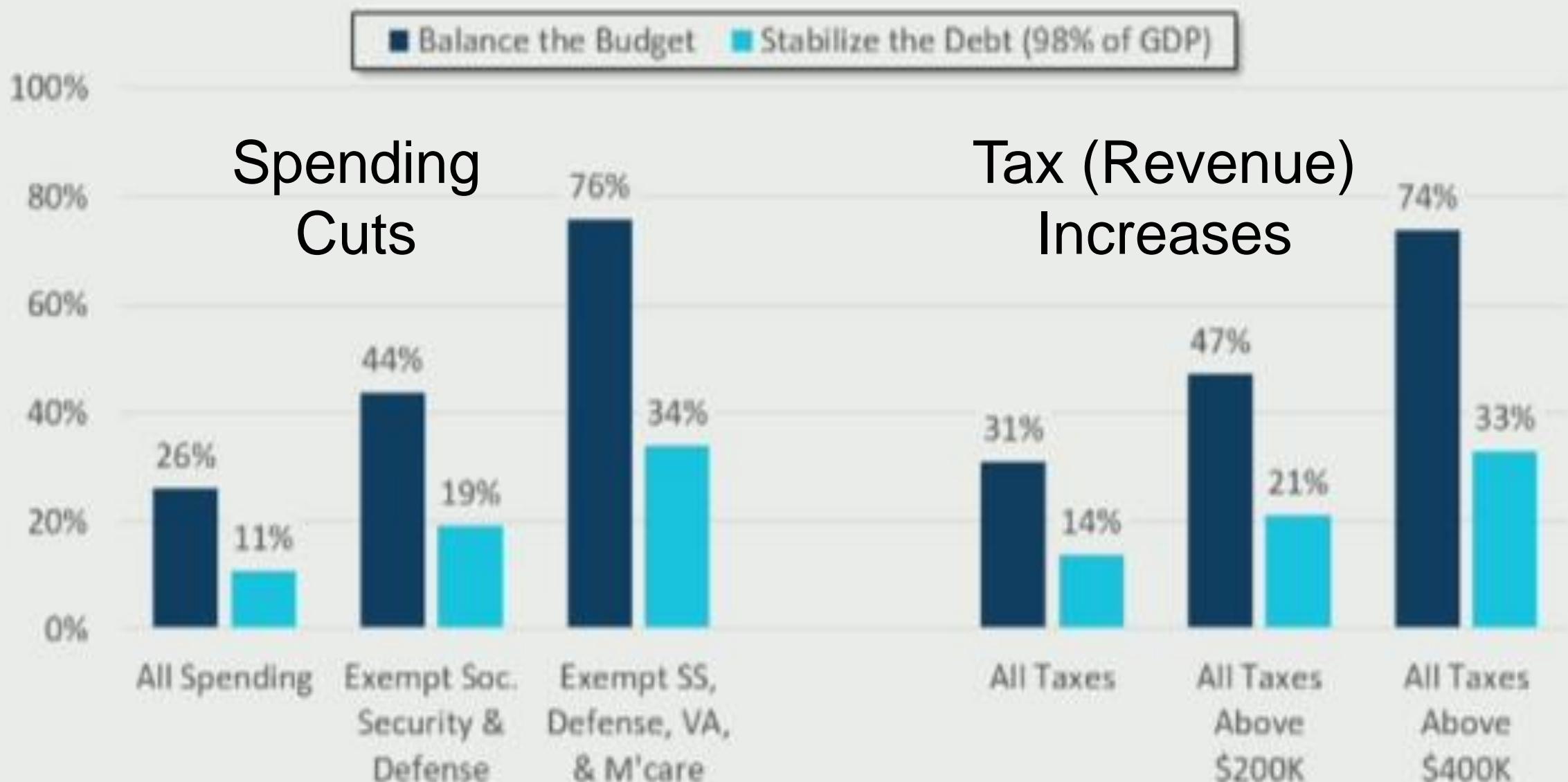


# Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year

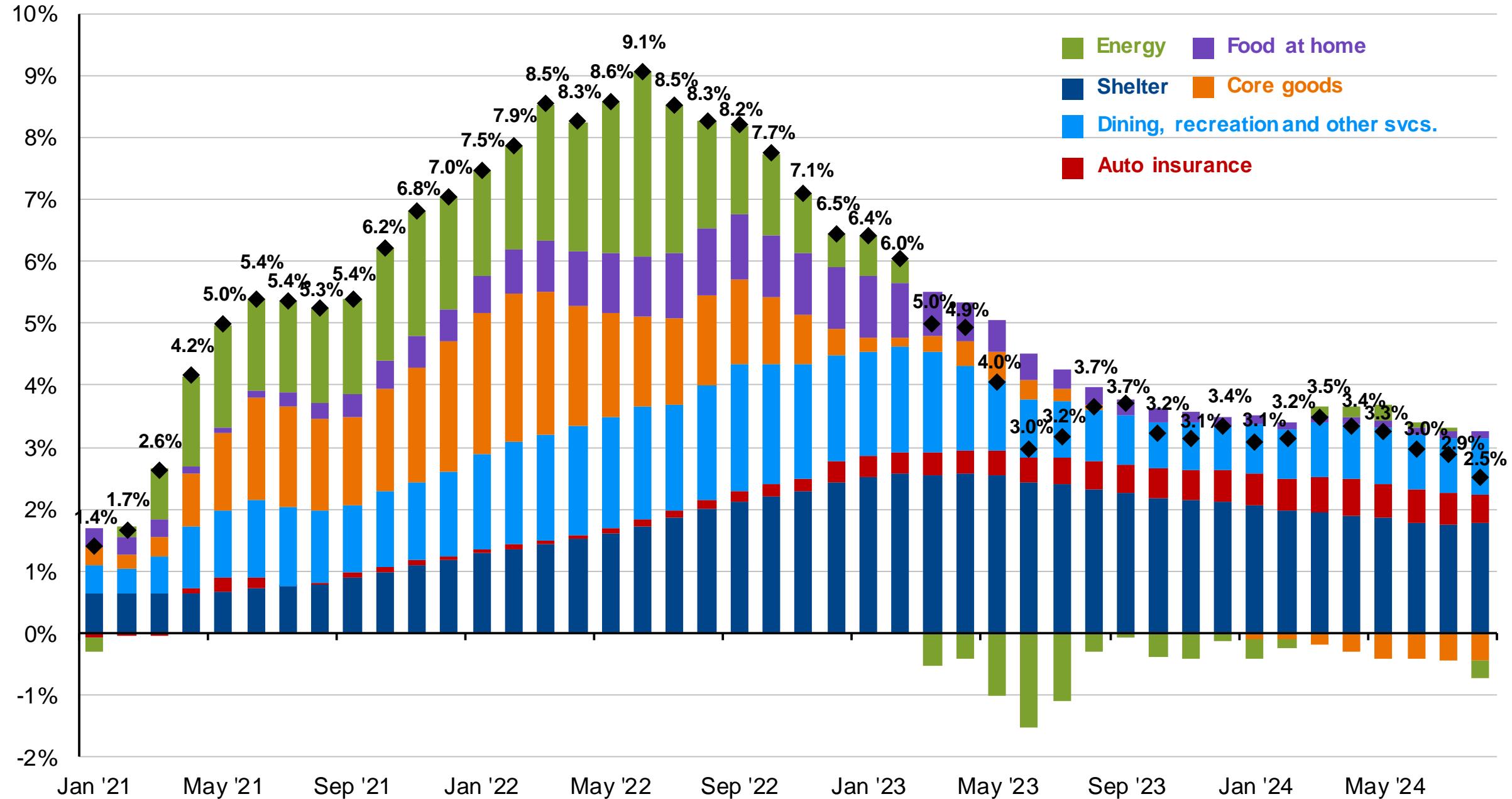


## What is required to balance the budget and stabilize debt to GDP at 98%?



# Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



## Investment Thoughts

1. The S&P 500 Index is an active, rebalanced momentum portfolio. It is used universally as “the benchmark” so it must be owned. Any decision to move away from the S&P 500 involves elevated risk in institutional investing.
2. Risk is measured by volatility. Over time, up and down volatility cancels out and you are left with the trend. Would you have been happy with S&P 500 returns for the past several decades?
3. Our problem is time. Because our time is limited, we cannot rely on time to resolve our downside risk potential. If you have time, get long.
4. In bullish periods, the S&P 500 delivers double digit annual returns. In bearish periods, average annual returns zero to low-single digit. The blend of bullish and bearish returns over the past 100 years is where the 7-8% average annual return comes from. Bearish periods may last for at least a decade.

# Fixed Income

The 5-year forward average annual return of the Barclays Agg bond index has a 94% correlation with the starting yield to maturity. PIMCO

- PIMCO Short Maturity ETF (MINT): 6% yield-to-maturity, 0.1 year duration, multi-asset, investment grade.
- PIMCO Multi-Sector Bond ETF (PYLD): 7% yield-to-maturity, 5-year duration, multi-asset, some high-yield exposure.
- Pioneer Securitized Income (SYFFX): 9% yield-to-maturity

## **Don't Let Cash Be Idle**

High quality, short-duration bonds

**MINT: PIMCO Enhanced Short Maturity ETF**  
5.3% interest

**GSST: Goldman Sachs Ultra Short ETF**  
5.3%

## Taxable Accounts

High-yield Municipal Debt Fund (e.g., **GHYIX, PHMIX**)

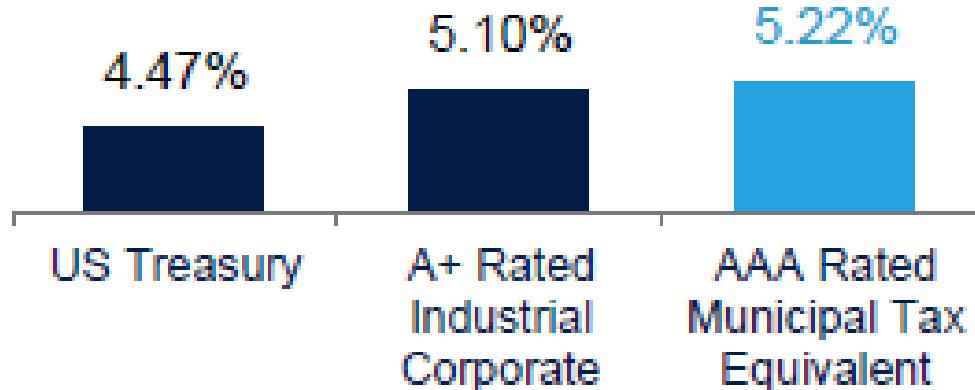
**GHYIX**: Goldman Sachs High Yield Muni Mutual Fund

**PHMIX**: PIMCO High Yield Muni Mutual Fund

- Federal tax free
- After tax equivalent yield roughly 8% (high tax bracket)
- Low correlation to equity markets
- Benefit from interest rate stabilization and decline
- Fully high yield only available in mutual funds, not ETFs

# Taxable Accounts – Munis Score Well

## High Quality Yields

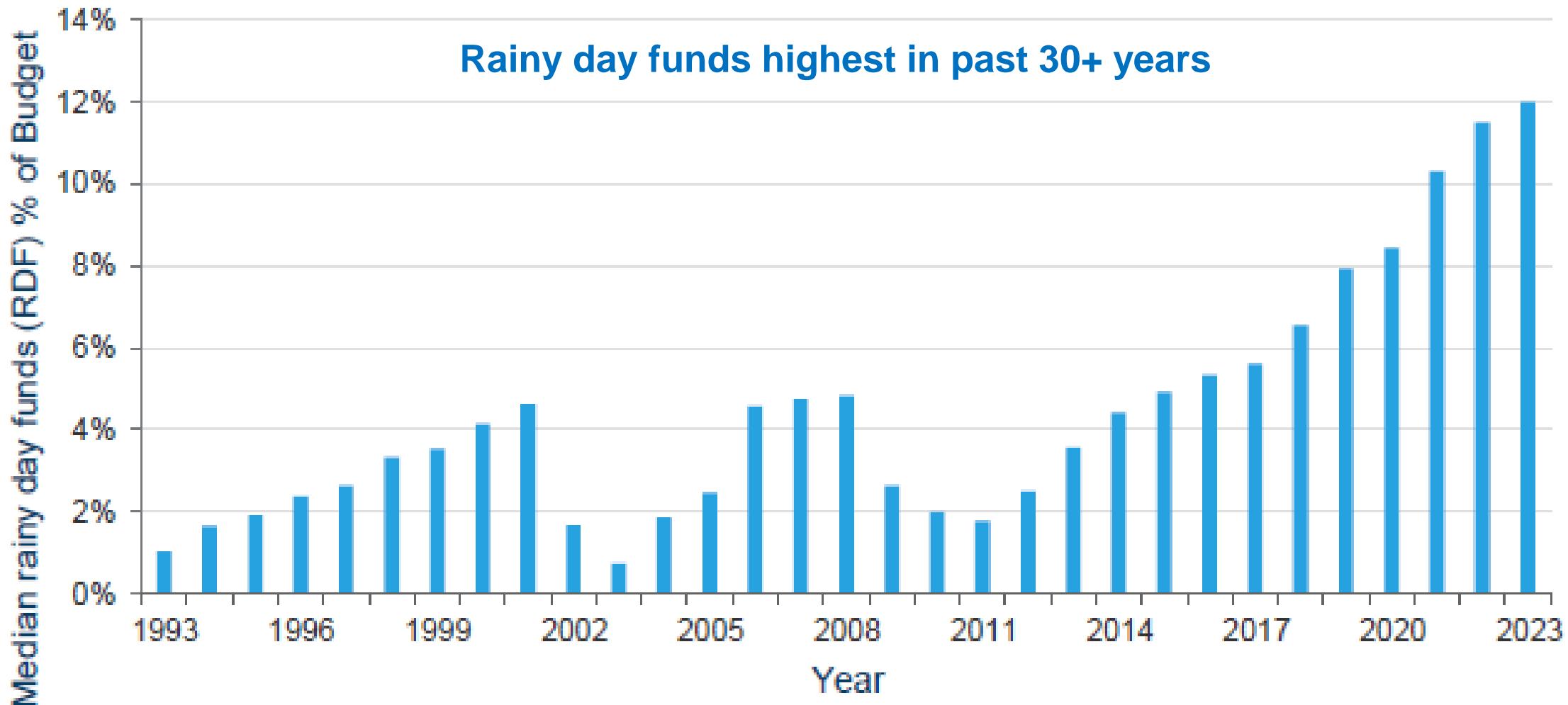


## Credit Index Yields



Source: Bloomberg 8/10/2023, Treasury, US Corporate Industrials A Rated, and US Municipal AAA Rated BVAL 15 year points. Tax adjusted at 37%. Chart 2: Bloomberg Emerging Market Hard Currency Index USD, Bloomberg High Yield Corporate Index, Bloomberg High Yield Municipal Index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index. See last page for further information about indices shown.

# Taxable Accounts – Munis



# Taxable Accounts

## Enterprise Product Resources MLP (EPD)

- 6.4% dividend payout
- Tax free until principal returned
- Roughly 3-5% average annual dividend increase
- Favorable oil/gas production outlook
  - AI data center demand
  - EV and all-electric transition
  - 65% of electricity powered by natural gas

More broadly, Natural Gas and Nuclear Energy  
e.g. (GEV, etc.)

# Yield and Growth

## Buy-write Equity

- **SPYI**: Neos S&P 500 High Income ETF
  - YTD through November 21.47%, 12% yield
  - S&P 500 with call writing
- **GPIX**: Goldman Sachs S&P 500 Income ETF
  - YTD through November 24.05%, 8% yield
  - S&P 500 with call writing

# Yield and Growth

## Buy-write Equity

- **JEPQ**: JPMorgan NASDAQ 100 Income ETF
  - YTD through November 25.18%, 11% yield
  - NASDAQ 100 with call writing
- **GPIQ**: Goldman Sachs NASDAQ 100 Income ETF
  - YTD through November 23.78%, 10.5% yield
  - NASDAQ with call writing

# Yield and Growth

## Buy-write Equity

- **JEPI**: JPMorgan Premium Income ETF
  - YTD through November 17.2%, 8% yield
  - Large Cap, Quality with call writing
- **BUYW**: Main Management Income ETF
  - YTD through November 9.74%, 6% yield
  - Index ETFs with call writing

# Hedged ETFs

## S&P 500 Benchmark with Downside Protection

- **ACIO**: Aptus Collared Investment Opp ETF
  - YTD through November 24.63%
- **SFLR**: Innovator Managed Floor ETF
  - YTD through November 22.48%
- **HELO**: JPMorgan Laddered Overlay ETF
  - YTD through November 19.87%
- **FHEQ**: Fidelity Hedged Equity ETF
  - Inception 4/11/2024
  - June – Nov 12.74%, S&P 500 14.5%