

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.

March 6, 2020

A Whole New (Fixed Income) World

A week ago, the Fed Funds futures were pricing in a 100% chance that the Fed would cut the Fed Funds rate by the March 18th meeting. This week, the Federal Reserve cut the rate by 0.5%, well before the meeting. Today, after the 50 basis point rate cut, the Fund funds futures are still pricing in a 100% probability that the Fed cuts rates by/at the March 18 meeting.

Interest rates are plunging. The 10-year treasury rate is below 1%. Inflation, as measured by the Federal Reserve, is roughly 1.6%. The real rate of return (nominal return minus inflation) in the 10-year treasury is roughly negative -0.6%.



A year and a half ago, the Federal Reserve was talking about moving the Fed Funds rate up towards 3%. The market is showing a high probability it could be closer to zero by the end of this year.

As of late last year, it was estimated that there was roughly \$3.4 trillion held in money market and ultra-short duration fixed income investments. Because of the relatively high Fed Funds rate, many of these instruments had a yield of roughly 2%.

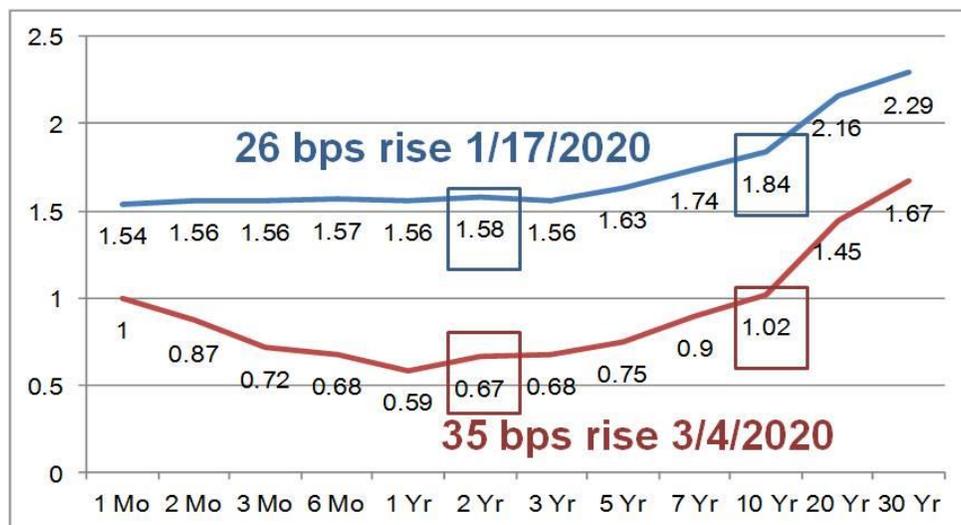
To the surprise of many and in a very short period of time, much of the money held in short-duration fixed income may soon have close to zero nominal return and negative real returns. The fixed income investment landscape is changing with the speed of recent rate declines.

The best place to find yield may be in equities. For example, the dividend yield on the S&P 500 is 2%. Wells Fargo has a dividend yield of roughly 5%. Exxon's yield is about 7%.

There is no question that the COVID-19 will negatively impact corporate earnings. We can only speculate how far earnings will be revised lower. But this does not necessarily mean stocks will trade much lower from current levels or that the U.S. economy will enter into a recession. Lower rates reduce the discount rate which provides support for equities. Lower equity prices invite increased corporate buybacks.

Since the U.S. investment community began to collectively think about COVID-19 on or about January 17, the treasury yield curve has moved lower. Interestingly, it has steepened (10y-2y) while moving lower. The two-year rate has fallen further than the 10-year rate.

Treasury Yield Curve Steepens



Upwardly sloped yield curves are correlated with periods of growth. 2020 may be a step backwards but the yield curve suggests 2021 will be a step forward.

Plunging treasury rates are being driven by a flight to safety. U.S. treasuries are a secure asset in an uncertain world. Uncertainty is also being reflected in the Delta Market Sentiment Indicator (MSI) which turned Bearish this week. In the near and intermediate term, risk is elevated in the equity markets. Delta strategies that follow the MSI sold equities and are in cash equivalent type assets. For long-term investments, COVID-19 will pass and growth should follow.

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.



"Another flu shot, Larry."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

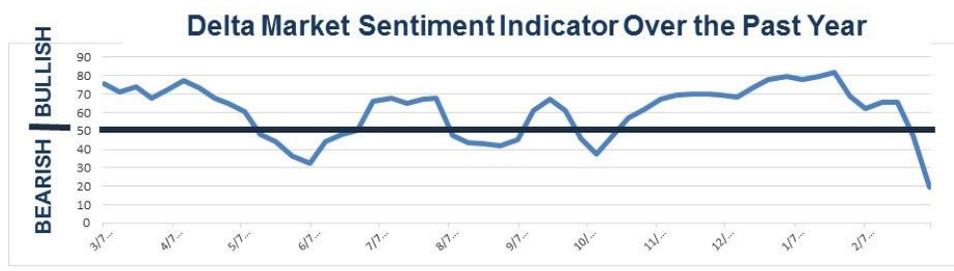
19.6

Our technical indicator decreased
from 47.5 to 19.6 this week

INDICATOR STATISTICS

Consecutive Bearish Weeks:	2
Cycle Inception Date:	2/27/2020
Range:	19.6 – 47.5
Mean:	33.6
Bullish Weeks YTD:	2
Bearish Weeks YTD:	0
*S&P 500	2.5%
*DJIA	2.4%
*NASDAQ	3.2%

* Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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