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Delta manages portfolios at TD Ameritrade and Schwab.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

April 3, 2020

Taking the Temperature of the Market

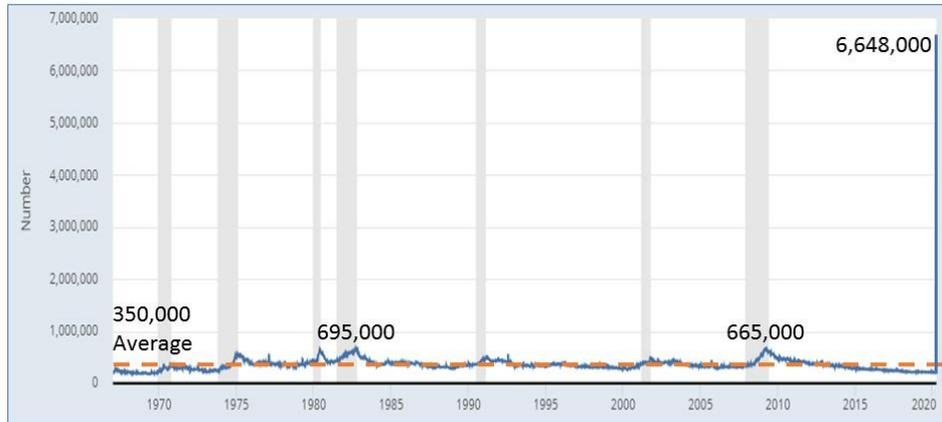
COVID-19 causes some people, including healthy young people, to require intensive care and ventilation. In advance, we do not know who will suddenly require intensive care. Most people who get COVID-19 suffer minor symptoms and will recover at home.

Much like a person infected with COVID-19, the stock market may suffer a further, significant setback, or not. For now, the Federal Reserve and Congress are applying treatment to keep the market stable. Congress passed the CARES Act and the Fed cut the Fed Funds rate to zero, restarted unlimited asset purchase programs, reduced reserve requirements for banks, expanded the asset purchase program, restarted term asset backed securities loans, launched new corporate credit facilities and allowed municipal debt to be used as collateral by money markets.

There is very little visibility on how events will play out and how the market will react over the next several weeks and months. On the positive side, it appears the growth rate of infections and deaths in the U.S. is slowing. We may soon be able to test in-home to see if we have had COVID-19. If the antibodies were detected, the presumption is we would be immune from further infection.

On the negative side, unemployment is skyrocketing at an unprecedented rate and many sectors of the economy are in a depression. Weekly initial claims were reported this week to be 6,648,000 – this is ten times peak numbers during the recessions in 2002 and 2008 and twenty times the average over the past 53 years.

Initial Claims (Weekly) 1967 - 2020

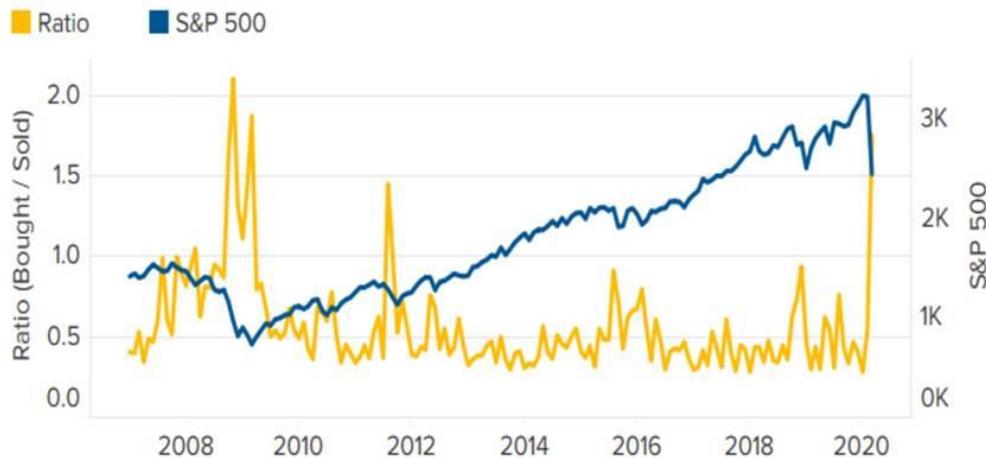


Source: Federal Reserve Bank of St. Louis, U.S. Employment and Training Administration

The stock market is still running a very high temperature with the CBOE Volatility Index (VIX) above 50. But at about 51, it is way down from its recent peak level of about 85. If it were to fall below 50, it would be a positive technical indicator and help confirm recent stock price strength.

From a week ago on Thursday's close, the S&P 500 is down by about 5%. But from the March 23 intraday low, the S&P 500 is up by about 14%. Forced selling has clearly abated. Insider stock buying is running at its highest level since March 2009. Insider buying provides an informed opinion on valuation.

Insider Buying Ratio (Bought/Sold)



SOURCE: Washington Service

The energy sector was hit by both a collapse in demand and an oil price war. The sector, measured by the Energy Sector ETF (ticker XLE), was down 62% from the start of the year to its low on March 18. Since the low, XLE has bounced by almost 30%. There is a possibility the major oil producing countries reduce output near-term and stabilize oil prices at a more economically stable level. This would be constructive for stock prices.

The credit markets are open. At the heart of the storm is Yum Brands (YUM) which owns Pizza Hut, KFC and Taco Bell. The company sold \$600 million worth of bonds on Monday in a deal that was 4-5x oversubscribed. Given the strong demand for the bonds, the company increased the offering by \$100 million. Carnival Cruise lines (CCL) went to sell \$3 billion worth of senior secured notes this week. Investor demand was so strong that the company raised \$4 billion on a lower interest rate than initially offered.

The Delta Market Sentiment Indicator (MSI) is 8.1 this week, up from the all-time record low of 1.6 last week.

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.



"He's working from home today."

INDICATOR STATISTICS

MARKET SENTIMENT IS

BEARISH

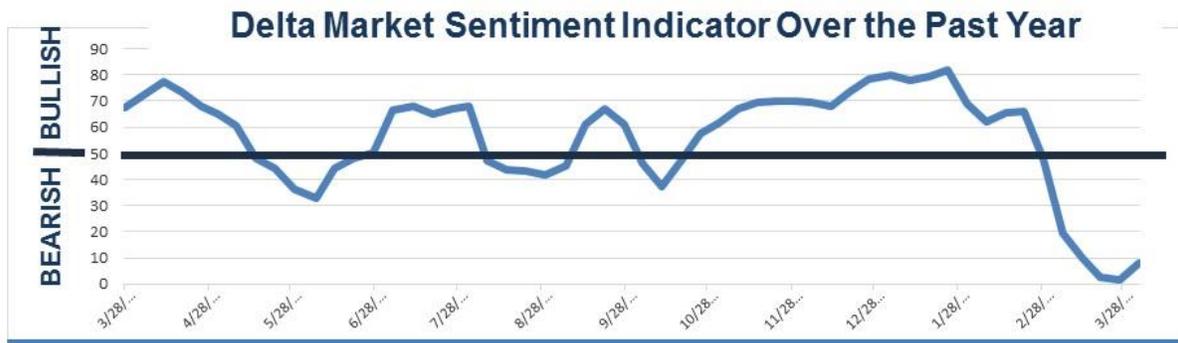
THIS WEEK'S NUMBER IS

8.1

Our technical indicator increased
from 1.6 to 8.1 this week

Consecutive Bearish Weeks:	6
Cycle Inception Date:	2/27/2020
Range:	1.6 – 47.5
Mean:	14.9
Bullish Weeks YTD:	8
Bearish Weeks YTD:	6
*S&P 500	-15.4%
*DJIA	-17.3%
*NASDAQ	-12.8%

* Percentage change during current cycle



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

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