

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.

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June 5, 2020

Pandemic, Riots, Presidential Election, War: A Good Year for Investing

Pandemic, riots, presidential election and war sounds a lot like 2020. What these words best describe, however, is 1968.

- The H3N2 pandemic (avian influenza A virus originating in China) killed an estimated one to four million people worldwide and about 100,000 in the U.S.
- The Vietnam War significantly escalated with 549,000 U.S. troops deployed – not counting U.S. forces in Laos, Cambodia, Thailand, North Vietnam, China, the Philippines, Japan, Korea and Guam – 3 million total. Stationing U.S. troops throughout Asia was a catalyst for the H3N2 virus to be broadly spread to all parts of the U.S. as troops returned home.
- North Korea seized the USS Pueblo in an attempt to divert attention from their failed assassination attempt on the South Korean president.
- The U.S. Airforce conducted Operation Freezeloze to clean up the remains of a B-52 bomber that crashed in Greenland with four nuclear bombs on board. This served as another reminder during the Cold War of how close the world was to nuclear destruction.
- Dr. Martin Luther King Jr. was assassinated. The U.S. erupted in violent riots in 110 cities. Curfews were imposed and the National Guard, regular Army soldiers, paratroopers, combat engineers and artillerymen were deployed to control rioters.
- Senator Robert F. Kennedy sought the Democratic Presidential nomination. His campaign efforts were terminated by assassination.
- The presidential election pitted Richard Nixon against Hubert Humphrey which polarized further a highly polarized populace. Polarization generally was based on age and race.

And now for the punch line...the S&P 500 index advanced by 7.7% in 1968, roughly in-line with its average annual return for the past 75 years. If the S&P 500 matches the 1968 return, we should expect it to close the year at about its all-time high level of 3,400.

The escalation of the Vietnam War in 1968 provided a significant amount of fiscal stimulus to the economy. The U.S. spent roughly \$570 billion in 2020 dollars on the war effort in that single year which was the largest annual spend of the war.

Not counting the multi trillion-dollar quantitative easing of the Federal Reserve, Congress has already spent \$2.3 trillion (~11% of GDP) on Covid-19 relief programs this year. From this perspective, 2020 is way ahead of 1968.

Federal Acts to Address Covid-19	
One-time recovery rebate checks amounting to \$1,200 per adult and \$500 per child up to certain income limits	\$293 bil
Boost unemployment benefits, adding \$600 per week to every check until July 31, expanding program to cover contractors and self-employed and extending program from 26 weeks to 39 weeks	\$268 bil
Grants to airlines and businesses deemed important for national security. Non-forgivable loans through Fed are excluded as they are assumed to be repaid	\$27 bil
Small business relief, mostly "forgivable loans" for spending on payroll, rent and utilities	\$760 bil
Health-related spending	\$425 bil
Other spending and tax breaks	\$517 bil

The U.S. military directly employed roughly 3.5 million people in 1968. This marked peak armed forces employment going back to 1954 and extending through today. Partly as a result of the war effort, the U.S. unemployment rate was 3.4%.

2020 began the year with an unemployment rate of 3.4%. Today, unemployment is near all-time high levels. But, much of the \$2.3 trillion being spent by the Federal government is offsetting the current cost of unemployment (unemployment benefits, small business relief and tax breaks). For the moment, the devastating impact of high unemployment is being held somewhat at bay and it is hoped that many of the unemployed will become re-employed this fall.

The 2020 stock market is benefiting from another factor besides massive fiscal stimulus. Corporate debt issuance has surpassed \$1 trillion so far in 2020, already matching the record annual pace of the past few years. Amazon borrowed \$10 billion this week with maturities ranging from 3 to 50 years at a 0.4% interest rate on the 3-year debt. Money raised in the debt market finds its way into the equity market via stock buybacks, dividends, and productivity/earnings enhancement investments in better systems, plant, property and equipment. Additionally, much of the corporate debt being raised today is

refinancing old debt at lower rates. Reduction of debt burden costs is an increase in net income.

Over the past 50 trading days through Wednesday of this week, the S&P 500 rallied by roughly 38%. This is the largest 50 trading day rally since World War II. Part of what is driving the rally is the decline in uncertainty, particularly measured by the CBOE volatility index. The VIX has declined from a high of 85 to 25 today. If the VIX were to decline below 24.5, it would have broken down through its 200-day moving average. This event would add one more bullish technical indicator to a market with historic bullish momentum.

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.



"I've found my voice, Penny. It's deep, wise, and compassionate."

INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

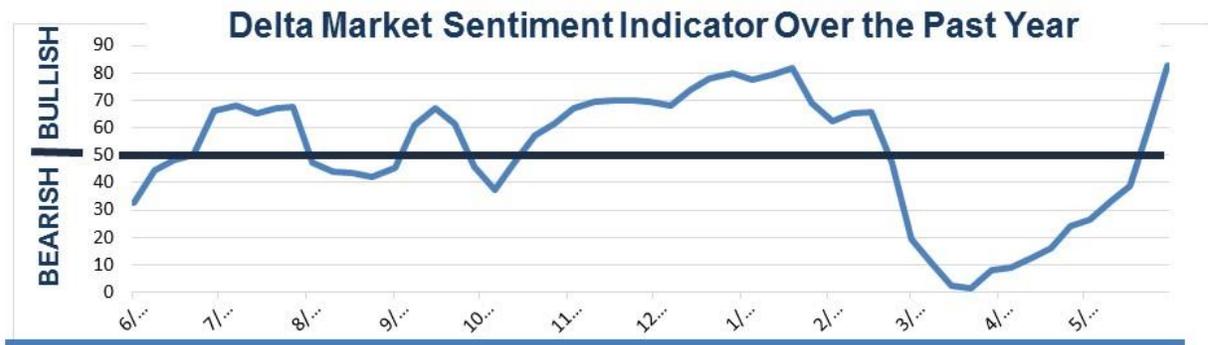
THIS WEEK'S NUMBER IS

82.7

Our technical indicator increased
from 60.9 to 82.7 this week

Consecutive Bullish Weeks:	2
Cycle Inception Date:	5/28/2020
Range:	60.9 – 82.7
Mean:	71.8
Bullish Weeks YTD:	10
Bearish Weeks YTD:	13
*S&P 500	2.7%
*DJIA	3.4%
*NASDAQ	2.3%

*Percentage change during current cycle



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

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