

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

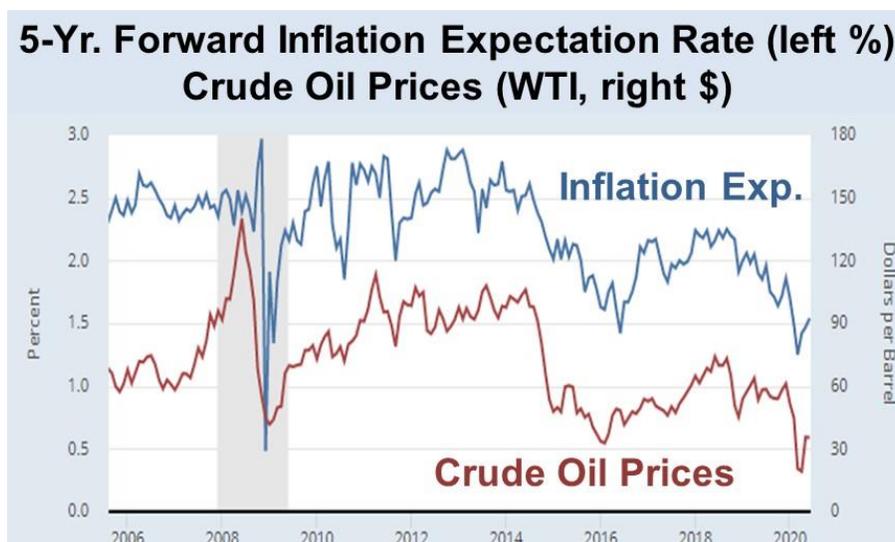
June 12, 2020

## **Low Inflation, Cheap Oil – Multi-Year Investment Implications**

Predicting the future price of oil may be one of the most difficult assignments for a financial analyst. In the past twelve years, crude oil prices moved in a range of \$150/barrel to \$20/barrel. At one point this year, crude oil futures prices were negative \$40/barrel. In the past month and a half, the price of crude oil has doubled.

The current price of oil is where demand and supply meet. Normally, demand is relatively constant. Supply can be more volatile. Lately, both supply and demand have moved erratically. We have lived during times when demand and supply have been materially impacted by a pandemic, OPEC decisions, new technology (fracking, electric cars) and a plethora of other geopolitical factors.

When oil is discovered, it is in a reserve that will be depleted over time. Because oil is an asset that is depleted over time, oil prices have a forward-looking element. It turns out that the five-year forward inflation expectation is highly correlated with crude oil prices today (lines move in parallel).



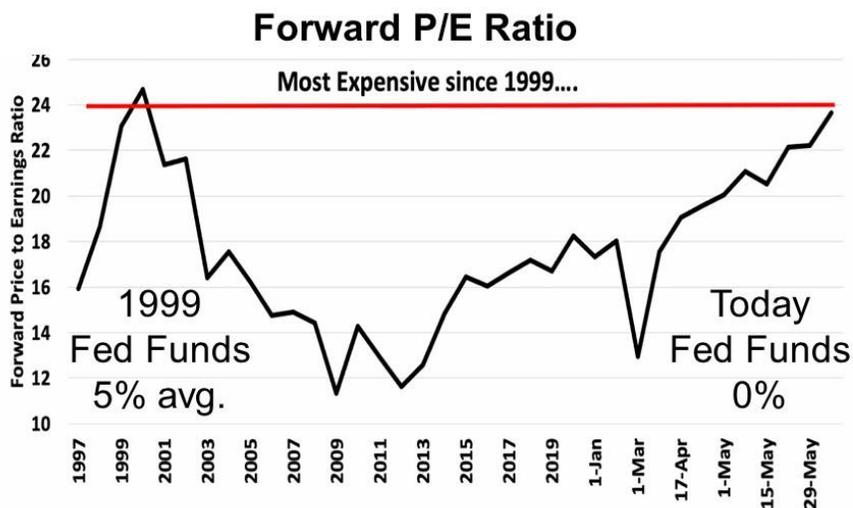
Inflation expectations for the five-year period beginning in five years is about 1.5%. This is substantially below 2%+. If the relationship between inflation expectations and oil prices remains robust and inflation remains low, we should expect low oil prices for years to come.

This week, the Federal Reserve said it will keep the Fed Funds rate at zero at least through 2022. This is confirmation of a low inflation outlook, and most likely, low oil prices. On a historical note, the Core Consumer Price Index (CPI) has fallen for three straight months. This is the first time this has happened since 1957.

### Low Inflation, Low Oil Price Investment Considerations:

Year-to-date, the SPDR Energy ETF (XLE) is down roughly 30%. Many oil stocks may become a “value trap” over the next several years. Price/earnings (P/E) multiples are low but growth may be even lower in a long-term low oil price environment. A careful energy investor can find attractive combinations of yield and steady growth in sub-sectors of the oil patch. Call Delta if you would like help with your search.

More broadly, low inflation suggests low economic growth. Low growth combined with historically high multiples suggest low returns for the broader stock market in the foreseeable future. (Important note: High P/E multiples today are somewhat explained by very low interest rates. On an interest rate adjusted basis, the forward P/E multiple of the S&P 500 is lower than what it was in 1999.)



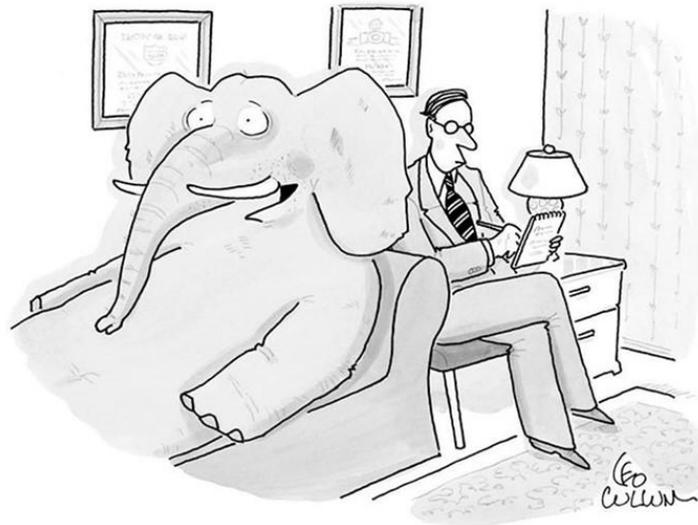
## Expected 10 Year Returns



Today's investment landscape implies that achieving attractive equity market returns will be highly dependent on market timing and stock/sector selection. Delta Investment Management brings a disciplined and experienced approach to this process. Please feel free to contact us to discuss the above in greater detail.

### 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](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*"I'm right there in the room, and no one even acknowledges me."*

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

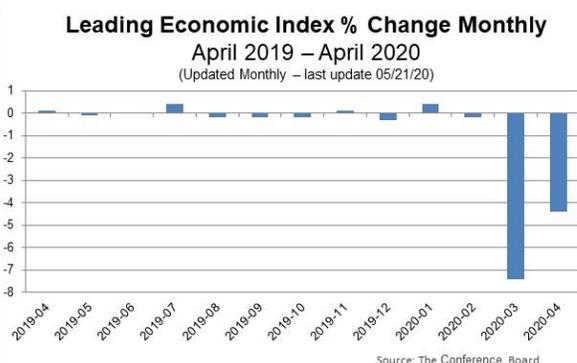
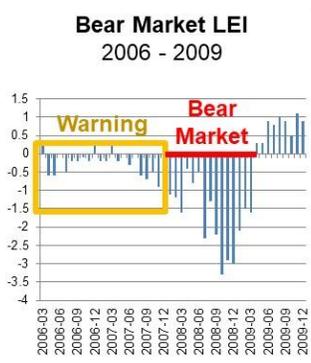
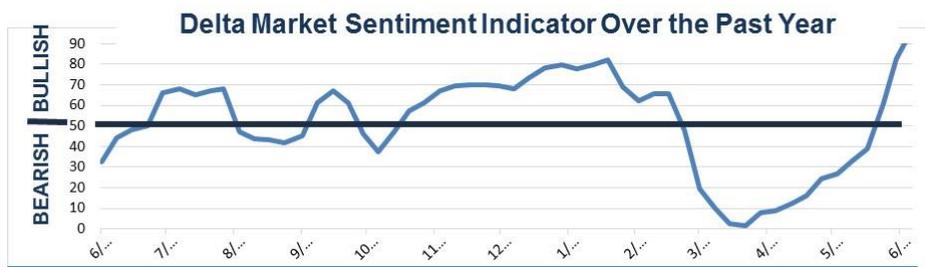
**96.2**

Our technical indicator increased from 82.7 to 96.2 this week

## INDICATOR STATISTICS

Consecutive Bullish Weeks:	3
Cycle Inception Date:	5/28/2020
Range:	60.9 – 96.2
Mean:	79.9
Bullish Weeks YTD:	11
Bearish Weeks YTD:	13
*S&P 500	2.4%
*DJIA	2.7%
*NASDAQ	2.2%

\* Percentage change during current cycle



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