

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.

July 10, 2020

The Covid-19 Defensive Trade Lifts Markets

Covid-19 is a major driver of trading activity since February. At the start of the crisis, the obvious projection was to say an economic shut-down would severely curtail economic activity and the equity market would suffer. For the first month, this is what happened. The S&P 500 declined by about 35% from late February into March.

Today, it appears there is a surge of Covid-19 cases in the U.S. which might cause investors to think we will see a repeat of the dramatic market sell-off that we experienced in March. This scenario is possible but it appears there is a flight to safety that is driving unexpected outcomes.

Historically, when investors are worried, they migrate money into safe assets. One of the safest assets is U.S. treasuries. With the collapse in interest rates and flight to safety, it is not a surprise that 20-year U.S. treasuries have appreciated by about 24% year-to-date.

The Federal Reserve has injected trillions of dollars of liquidity into the markets. It is not a surprise that this causes investors to fear U.S. dollar devaluation and fund flows into gold. The gold ETF (GLD) is up roughly 18% year to-to-date.

Covid-19 driven trades into treasuries and gold are not much of a surprise. Gold and treasuries often appreciate during periods of elevated uncertainty. What is unexpected is the magnitude of Covid-19 driven fund flows in the equity markets. Companies that perform well in a virtual environment, have lots of cash and offer essential services are doing very well. The previous sentence describes Apple, Microsoft, Amazon, Google and many of the other largest companies of the NASDAQ. The NASDAQ 100 ETF (QQQ) is up over 20% year-to-date. In some sense, this represents a flight to safety in a Covid-19 equity market.

By contrast, the equally weighted S&P 500 ETF (RSP) is down by about 12% year-to-date. Covid-19 is driving fund flows out of cyclical, capital intensive, leveraged, in-person service based traditional economy companies. Because the large capitalization technology stocks dominate the major stock market indexes, the overall effect is the S&P 500 is down marginally year-to-date even though the majority of stocks are down on the year.

The take-away from the above is just because we are seeing a surge in Covid-19 cases in the U.S., the stock market may not necessarily depreciate materially. In fact, if Covid-19 keeps driving funds into the largest technology stocks which dominate the major market indexes, we could see index appreciation in an expanded pandemic environment.

The ideal market outcome during the second half of the year would be to have a major breakthrough on Covid-19 vaccination and/or treatment. This would allow the average stock to potentially close the performance gap with the Covid-19 winning stocks. Many average stocks are trading at attractive valuations, particularly relative to the day the crisis abates. Maintaining a diversified equity exposure in this fast moving Covid-19 environment remains a prudent approach.

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.



"How's your book coming?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

82.1

Our technical indicator decreased from 82.5 to 82.1 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	7
Cycle Inception Date:	5/28/2020
Range:	60.9 – 96.2
Mean:	83.0
Bullish Weeks YTD:	15
Bearish Weeks YTD:	13
*S&P 500	4.6%
*DJIA	2.6%
*NASDAQ	11.5%

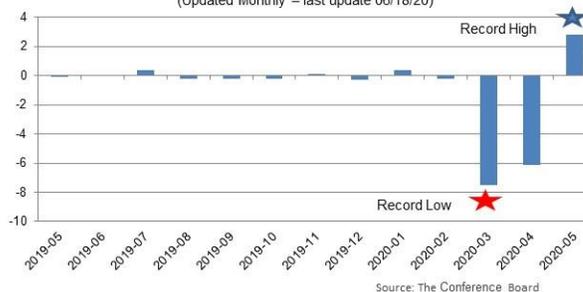
* Percentage change during current cycle



**Bear Market LEI
2006 - 2009**



**Leading Economic Index % Change Monthly
May 2019 – May 2020**
(Updated Monthly – last update 06/18/20)



Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.