

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.

September 4, 2020

Let Inflation (and the Stock Market) Run

Chairman Powell of the Federal Reserve says the Fed would like to see inflation average at about 2% rather than be capped at 2%. To the ears of investors, this statement translates into low rates for even longer. Inflation is running well below the Fed's 2% average target. The Core Personal Consumption Expenditure Price Index (excluding food and energy is the Fed's preferred inflation measure) is currently running at about 1%. To achieve an average inflation rate of 2%, inflation would have to run higher than 2% for some time, perhaps years.



The Fed Funds rate futures market shows the percentage chance the Fed Funds rate is in the range of 0%-0.25% in March 2021 is 100%. This is the furthest out that the Fed Funds futures are traded.

If inflation is allowed to run and interest rates are low for years to come, the price/earnings (P/E) multiple for stocks is likely to keep expanding. In a low growth, low inflation world, the growth stocks offer relative to other asset classes looks increasingly

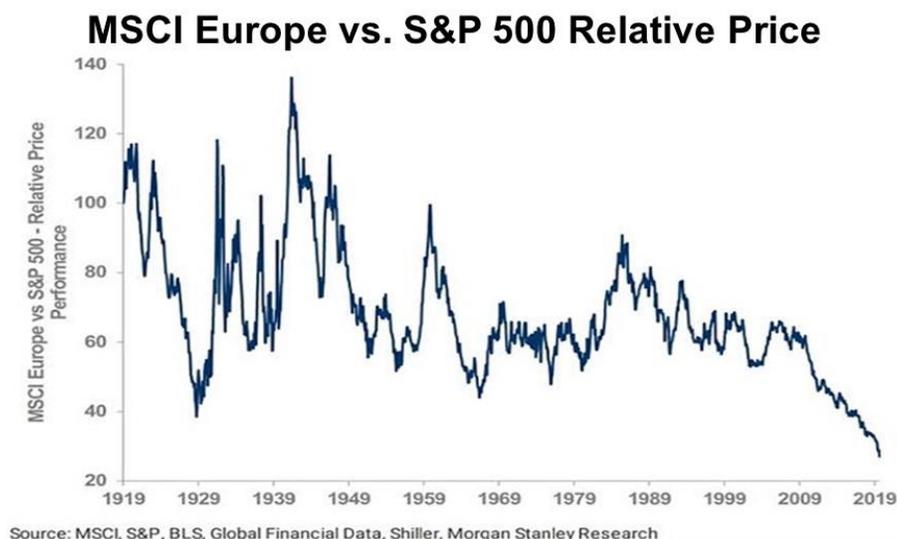
attractive and investors are willing to pay more for the growth. Analysts expect Apple (AAPL) to sell at least 75 million 5G iPhones this year. Zoom Video Communications (ZM) just reported a 355% year-over-year increase in revenue. In a zero-interest rate world, 75 million new phone sales and 355% y/y growth looks attractive. In an all-time low interest rate environment, we may experience all-time high P/E multiples, especially where fundamental business growth is robust.

When the S&P 500 reached its peak on March 24, 2000, the forward twelve-month P/E was 27.2x. The Federal Funds rate that year averaged 6.24%. Today, the forward twelve-month P/E of the S&P 500 is 23x. The Federal Funds rate is 0.009%. Relative to 2000, the stock market is inexpensive.

Follow-Up to August 21, 2020 *Delta Insights: Getting Ahead of COVID-19*

Two weeks ago, we wrote about how many countries appear to be ahead of the U.S. in Covid containment and in the economic reopening process. We highlighted that international stock markets are showing positive price momentum and offer attractive valuation relative to the U.S. stock market.

As a follow-up, below is a chart showing European equities are now at a 100-year low relative to the S&P 500 valuation.



Positive momentum in the global stock markets continues this week and intermediate-term price signals are bullish.

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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

72.9

Our technical indicator increased from 70.6 to 72.9 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	15
Cycle Inception Date:	5/28/2020
Range:	60.9 – 96.2
Mean:	79.7
Bullish Weeks YTD:	23
Bearish Weeks YTD:	13
*S&P 500	14.0%
*DJIA	11.3%
*NASDAQ	21.9%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



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.