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Delta manages portfolios at TD Ameritrade and Schwab.  
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May 28, 2021

### Still Waters Run Deep

Amazon (AMZN) has traded sideways for almost a year. Under the smooth surface of flat price performance, the 2021 earnings estimate increased by 26.5% and the 2022 estimate is up 36.3%.

### AMZN Stock & EPS Performance



We are currently seeing many fundamentally sound growth stocks tread water even though earnings growth has been robust. The NASDAQ is trading below its February peak.

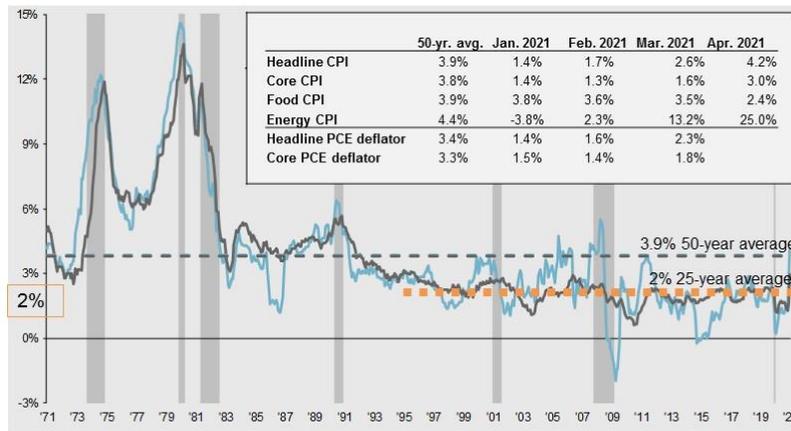
For large segments of the market, specifically the tech heavy NASDAQ and the smaller capitalization Russell 2000, the tremendous upward momentum in the six months following the March Covid shock has stalled. Investors are not so much questioning the case for further earnings growth and economic reopening but rather they are concerned that too much liquidity and too much growth will cause inflation and potentially significant P/E compression. With inflation uncertainty on the rise, many stock valuations are drifting sideways until the signals become clearer.

Although the popular belief is increased inflation is a foregone conclusion, it is quite possible we do not experience a sustained increase in inflation. That is what the 10-year US treasury is telling us currently with a yield of about 1.6%, down from a recent high of 1.76%

Inflation measured as core CPI has averaged 2% since 1996. This roughly 25-year trend is partly driven by globalization and technology advancement, two metrics that appear to be accelerating rather than slowing.

## Inflation

CPI and Core CPI % Change vs Prior Year  
Past 50 years



If inflation were to advance much beyond 2% on a sustained basis, it would be a change of a multi-decade long trend.

If higher inflation does not manifest itself in a convincing manner, stocks are attractive. The S&P 500 dividend yield is 1.3% and the earnings yield is 4.6%. These combined return rates are higher than yield on Baa rated corporate bonds of 3.6% (equivalent credit risk). Even if higher inflation does emerge, bond principal declines in a rising rate environment while many stocks offer an inflation hedge both in the types of businesses they conduct and via earnings growth. As the market sits still, its future appreciation potential increases with underlying, fundamental revenue and earnings growth.

### Let Us Help You Position Your Portfolio – 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).



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

**61.8**

Our technical indicator increased from 59.7 to 61.8 this week

### INDICATOR STATISTICS

Consecutive Bullish Weeks:	34
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	74.3
Bullish Weeks YTD:	21
Bearish Weeks YTD:	0
*S&P 500	21.9%
*DJIA	21.3%
*NASDAQ	20.3%

\* Percentage change during current cycle



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