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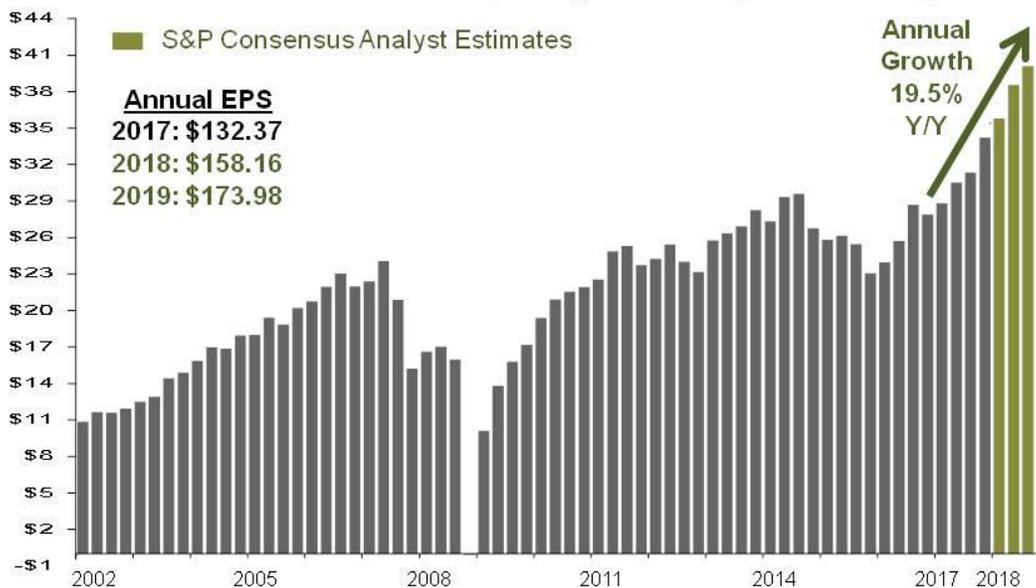
March 23, 2018

Stock Market Spring Has Yet To Arrive

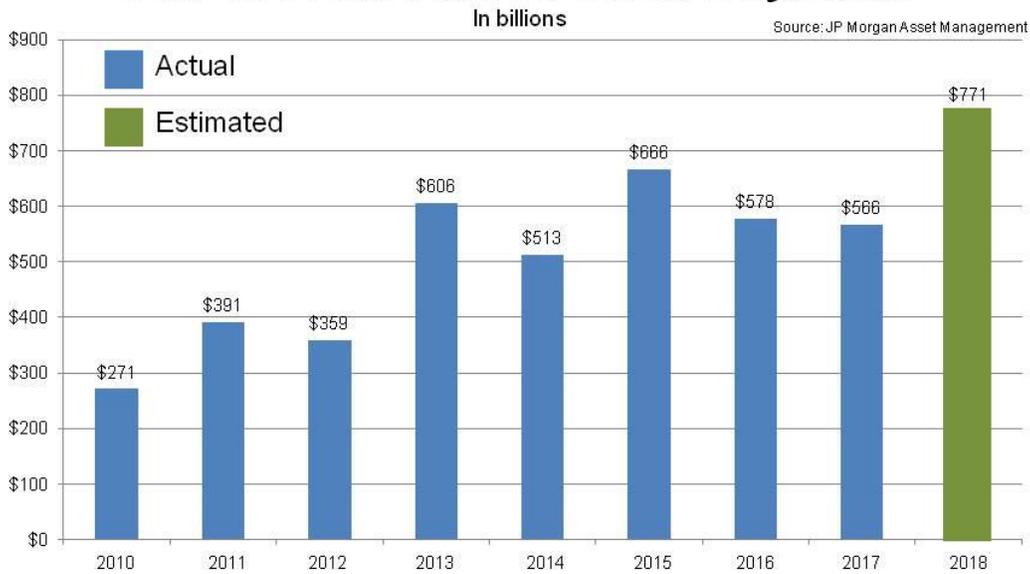
What do hotel occupancies, chemical sales activity, job openings, stock buybacks and intermodal freight loadings have in common? They are all booming and have accelerated from 2017 levels. Some of these measures are at all-time highs. First quarter earnings to be reported next month are expected to be up about 17% year-over-year. On December 31, analyst expectations were for just 11.4% earnings growth in Q1.

Given the constraints of space, we do not show a chart for all of the metrics mentioned above. The three charts below are representative of the group:

S&P 500 EPS, Qtrly. Operating Earnings



S&P 500 Announced Stock Buybacks



Job Openings: Total Nonfarm



The total number of unemployed plus marginally attached workers plus employed part-time for economic reasons is 8.2 million individuals. With 6.3 million job openings, there is a potential job for roughly 77% of these people.

It is hard to find a fundamental economic indicator that is not “up and to the right.” The LEI through February was reported this week at +0.6%, ahead of expectations – see chart at end of report. The LEI six month growth rate has not been this high since the first quarter of 2011. The LEI has been positive for 18 consecutive months.

The outlier is the stock market. The S&P 500 index is down year-to-date.

S&P 500 Index 2018 Year-to-Date



The market is consolidating. If fundamentals and earnings remain on positive trajectories and stock prices remain flat, it is possible that the market eventually makes a move higher – spring forward -- as the current dislocation between fundamentals and price shifts back into alignment. On the other hand, a loss of momentum in stock prices may be signaling a potential negative inflection point in fundamentals that is not yet visible in the data.

Often-cited reasons for the widening gap between fundamentals and stock prices are rising interest rates and tariffs. We have discussed both of these issues in recent newsletters. The 10-year treasury rate has been about 2.8% for the past two months so it may be less of a factor than tariffs currently. With regard to tariffs, it raises uncertainty about future growth rates which depresses the price/earnings (P/E) multiple.

Fed chairman, Jerome Powell, said this week in his press conference that some asset prices are 'elevated' including stocks. This is an *odd* remark coming from the Fed Chairman as the Fed Model for equity valuation actually shows stocks are undervalued currently.

The Fed model compares the stock market's earnings yield (E/P) to the yield on the 10-year treasury note. The market is "fairly" valued when the two are equal. Today, the S&P 500 earnings yield is 6% while the 10-year treasury note is 2.8%. To bring the S&P 500 to "parity" with the 10-year treasury yield, the S&P 500 index would have to trade higher by about 110% to 5,550.

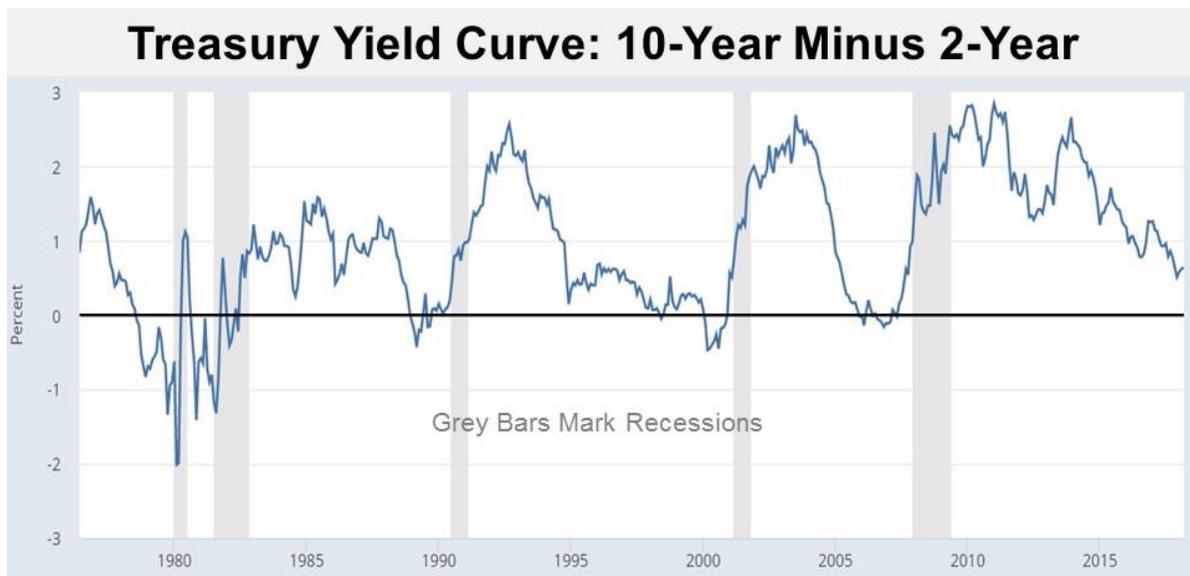
Our investment discipline will dictate whether we take action in the coming weeks to reduce, modify or increase equity market exposures. Keeping emotions out of the investment equation and staying disciplined is the way to maximize returns consistently over time.

Give Us a Call Today

We invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com if you have questions about how we can assist you in managing your investment accounts.



Delta Stock Market Dashboard



Source: Federal Reserve Bank of St. Louis

INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

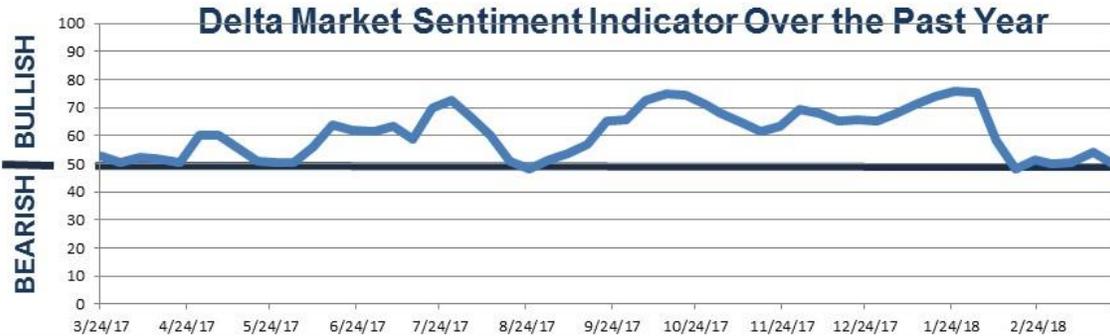
THIS WEEK'S NUMBER IS

50.1

Our technical indicator decreased
this week from 53.9 to 50.1

Consecutive Bullish Weeks:	71
Cycle Inception Date:	11/15/2016
Range:	47.9 – 75.7
Mean:	62.5
Bullish Weeks YTD:	12
Bearish Weeks YTD:	0
*S&P 500	23.0%
*DJIA	29.4%
*NASDAQ	36.8%

**Percentage change during current cycle*



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

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