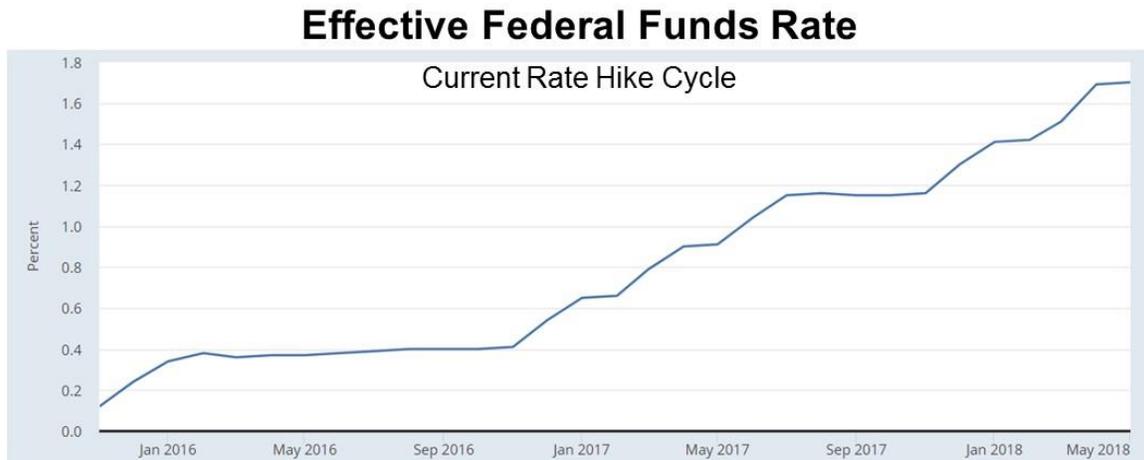


Delta Investment Management is a registered investment advisory firm headquartered in San Francisco. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner. Delta manages portfolios at TD Ameritrade and Schwab. Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

June 8, 2018

Is The Fed Facing a Rate Ceiling?

How high can they go? Since November 2015, the Fed has raised the Fed Funds rate from roughly zero to about 1.75%.

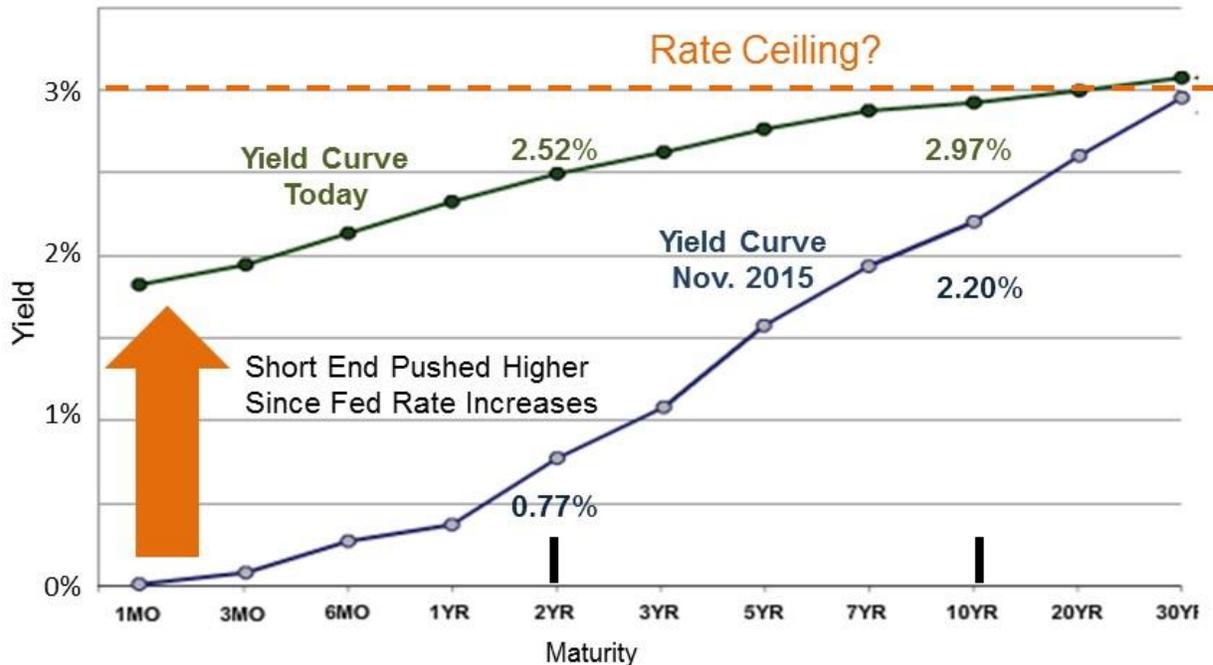


Source: St. Louis Fed, Board of Governors of the Federal Reserve System

Next week on Wednesday, the Federal Reserve is expected to raise the Fed Funds rate once again by 0.25% to 2%. When the Fed raises the Fed Funds rate, the two-year treasury usually rises in lock-step. The two-year treasury rate at 2.52% is roughly 0.75% above the Fed Funds rate. If the Fed raises rates next week, we should not be surprised to see the two-year treasury rate to climb to about 2.75%.

One of the reasons the economy historically has gone into recession is because the Federal Reserve raised interest rates too much. The indicator that the Fed has gone too far is when the two-year treasury rate is greater than the 10-year rate. Since the Fed began to increase interest rates in December 2015, the spread between short term rates and long-term rates has narrowed.

Treasury Yield Curve: Today vs. Nov. 2015



The Fed is expected to raise rates again in December pushing the two-year rate to roughly 3%. If the 10-year treasury rate remains near 3% through the end of 2018, it is reasonable to expect the difference between the two-year and 10-year rates to be roughly zero – a flat yield curve.

The Federal Reserve is banking on an increase in inflation, partly driven by rising wages in a full-employment economy. The unemployment rate is currently 3.8%, the lowest it has been in 18 years. Rising inflation would presumably lift the 10-year rate above 3% allowing the Fed room to keep raising the Fed Funds rate without inverting the yield curve.

But the reality of today is not complying with the Fed's view of how the world should work. With unemployment at very low levels, wage inflation is not accelerating. Core price inflation is not accelerating. The 10-year treasury yield is less than 3%.

The Fed appears to be heading towards a rate glass ceiling. If inflation remains at current levels and the 10-year treasury rate stays near 3%, will the Fed continue to raise short-term rates causing the yield curve to invert?

Stock prices represent the collective thinking of all active investors currently. Stock prices seem to be saying that inflation will remain moderate, interest rates will not rise too far too fast and the Fed will not invert the curve. This represents the proverbial "Goldilocks" scenario for the stock market. A docile rate environment in an expanding economy with 25% earnings growth is a fertile backdrop for strong equity gains.

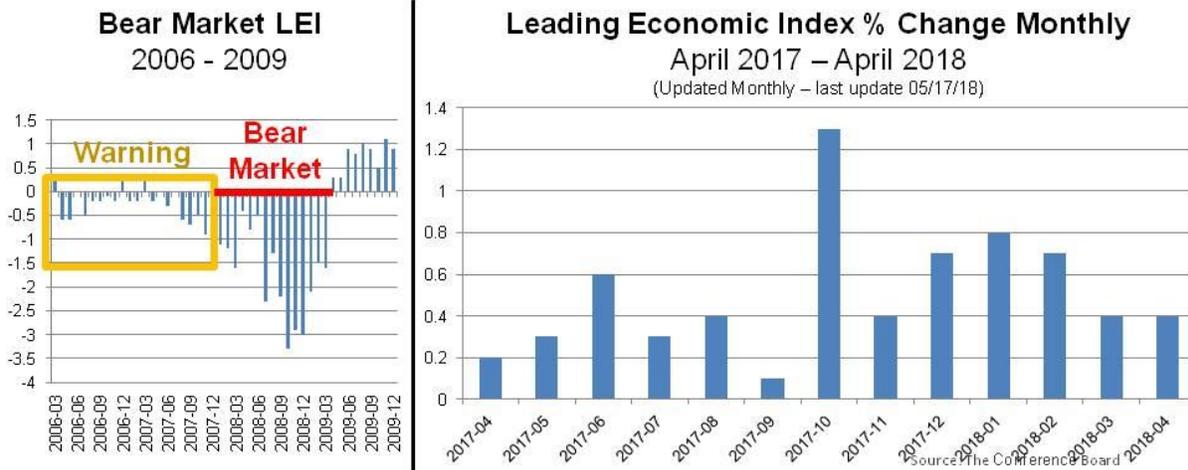
Give Us a Call Today

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.



"One question: If this is the Information Age, how come nobody knows anything?"

Delta Stock Market Dashboard



INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

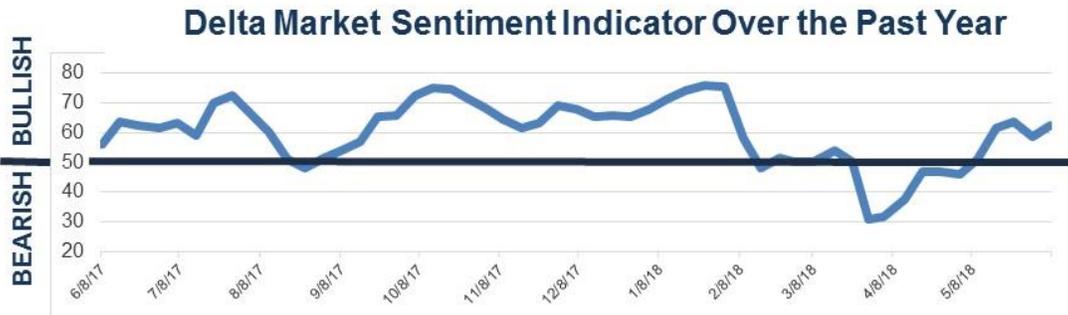
THIS WEEK'S NUMBER IS

62.5

Our technical indicator increased
this week from 58.7 to 62.5

Consecutive Bullish Weeks:	5
Cycle Inception Date:	5/10/2018
Range:	51.2 – 63.7
Mean:	59.5
Bullish Weeks YTD:	17
Bearish Weeks YTD:	6
*S&P 500	1.6%
*DJIA	2.1%
*NASDAQ	2.9%

* Percentage change during current cycle



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

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.