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August 17, 2018

Crisis Du Jour: Turkey Melt

The Turkish currency (lira) is melting. It is down about 40 percent this year versus the U.S. dollar. Much of Turkey's debt is owed in U.S. dollars. As its currency falls, it becomes increasingly expensive and difficult for Turkish indebted entities to make debt payments owed to foreign banks. The strengthening dollar and weakness in emerging market currencies (including Indonesia, South Africa, Russia, Argentina, Malaysia and China) is increasing fears of contagion risk.

U.S. banks have about \$18 billion in exposure to Turkish debt or about 0.5% of their assets. Turkey represents about 1% of the global economy.

Non-U.S. foreign banks hold roughly \$220 billion worth of Turkish debt. If there are significant defaults, foreign banks mostly in Europe, may experience material losses.

The trigger that begins the chain of events that ends the current bull market in the U.S. is likely to come from a surprising source. Concerns like rising interest rates and a flattening yield curve are broadly known and somewhat discounted into stock market prices already. Turkey melt is new to the headlines this week and being priced into stocks currently.

Turkey Country ETF (TUR) – 5 Years



“TUR” is the symbol for the iShares MSCI Turkey ETF. The chart above shows its decline over the past five years and rapid depreciation year-to-date. Given we are in the eighth month of the year, a sick Turkey is not entirely new news.

In May, 2007, Chairman of the Federal Reserve Ben Bernanke said “We believe the effect of the troubles in the subprime sector on the broader housing market will be limited and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.” What followed was the worst recession since the Great Depression.

Sometimes seemingly small problems turn into big problems, but not often. We call Istanbul on this Turkey melt. The U.S. economy has significant momentum. This week, the retail sector provided evidence of this (consumer spending makes up roughly 70% of U.S. GDP).

On Tuesday, the SPDR S&P Retail ETF (XRT) reached a new all-time high.



Retail sales increased by 0.5% in July month-over-month versus a consensus expectation of 0.1% and were up 6.4% year-over-year. Macy’s reported better earnings and sales this week and guided forward estimates higher. The largest retailer in the world, Wal-Mart, reported better earnings, sales and comps and guided higher this week.

Our indicators remain bullish this week and we remain predominately invested in equities.

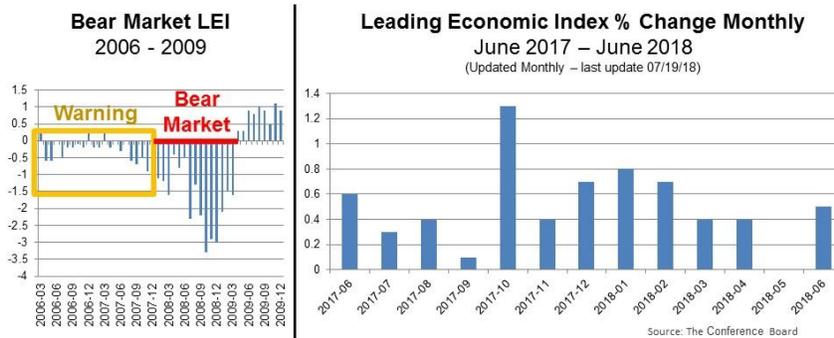
Give Us a Call Today

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.



"... And you never wondered why they call me 'Rover?'"

Delta Stock Market Dashboard



INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

60.6

Our technical indicator decreased
this week from 62.9 to 60.6

Consecutive Bullish Weeks:	15
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.64
Bullish Weeks YTD:	27
Bearish Weeks YTD:	6
*S&P 500	4.3%
*DJIA	3.3%
*NASDAQ	5.4%

* Percentage change during current cycle



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

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