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April 5, 2019

## **A Whiff of Spring in the Growth Outlook**

GDP growth year-over-year in 2018 was roughly 3%. For 2019, Wall Street and the Federal Reserve believe growth will slow to about 2%. The consensus Wall Street estimate for GDP growth in the first quarter is about 1.3% and S&P 500 earnings are expected to be down -3.9% year-over-year. One of the reasons the Federal Reserve has stopped raising the Fed Funds rate is because of slowing growth concerns.

The stock market, by contrast, is trending higher. The market appears to have caught a whiff of spring in the growth outlook.

The Institute for Supply Management (ISM) **Non-Manufacturing Index (NMI, Services)** for March was 56.1%, below consensus expectations of 57.9% and 59.7% in February. But, although the NMI was below and down, every index component was above the expansion threshold of 50%. According to the ISM, the past relationship between the NMI and the overall economy indicates the NMI for March corresponds to a 2.6% increase in real GDP on an annualized basis.

The ISM Manufacturing Index (PMI) for March increased to 55.3% versus a consensus estimate of 54.1% and from 54.2% in February. The headline of the ISM press release is:

**“New Orders, Production, and Employment Growing  
Supplier Deliveries Slowing at Slower Rate; Backlog Growing  
Raw Materials Inventories Growing; Customers’ Inventories Too Low  
Prices Increasing; Exports and Imports Growing”**

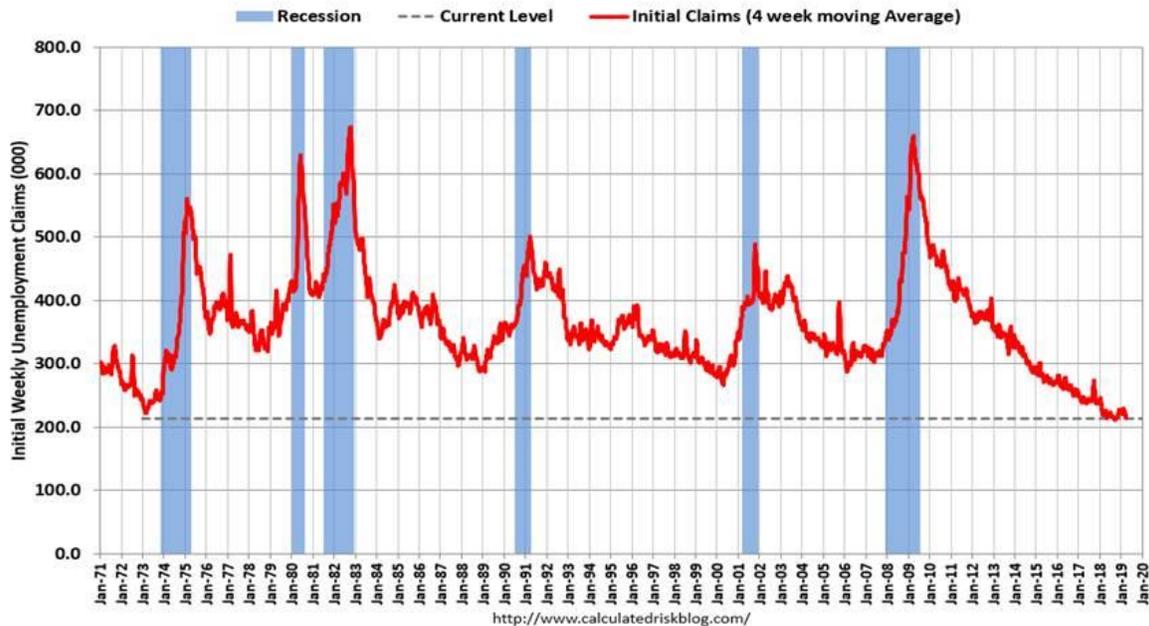
According to the ISM, the past relationship between the PMI and the overall economy indicates the PMI for March corresponds to a 3.7% increase in real GDP on an annualized basis.

Last week, we talked about the inversion of the 10-year and 3-month treasury rates on the yield curve (10y < 3m) being a possible signal of recession. Our call was to let the game play on (no change in investment outlook – bullish) as it was unclear if the treasury yield curve was giving us an unequivocal signal. As follow-up, the 10-year rate

has reverted to being greater than the 3-month rate and this inversion recession signal is no longer in effect.

In the week ending March 30, seasonally adjusted initial unemployment claims was 202,000, a decrease of 10,000 from the previous week's level. This is the lowest level for initial claims since December 6, 1969. The four-week moving average for initial claims dropped by 4,000 to 213,500, which leaves it close to a historical low.

## Initial Weekly Unemployment Claims

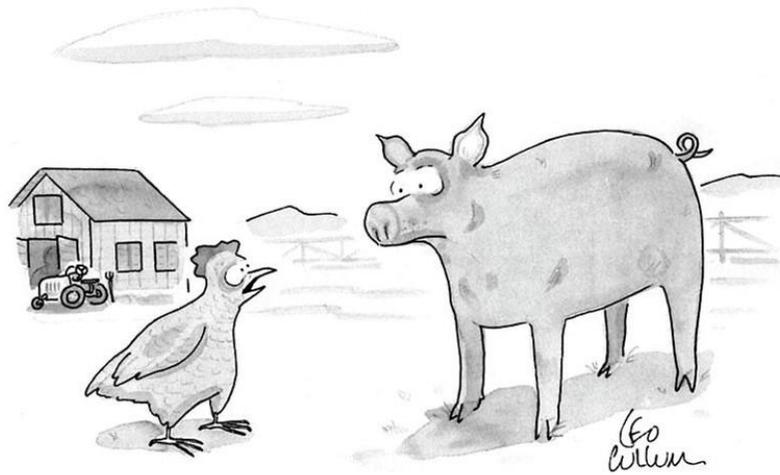


Before every recession (shown with a blue vertical bar in the chart above), the 4-week moving average of unemployment claims has trended up. This is not currently the case.

The whiff of accelerating growth is currently faint. But even more faint is the whiff of recession in the next six months. Earnings season begins in about two weeks and will either strengthen or dissipate these scents. For now, intermediate and long-term indicators are bullish.

### Give Us a Call Today

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*"You know you have my support on pork and beans, but where do you stand on chicken and dumplings?"*

## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

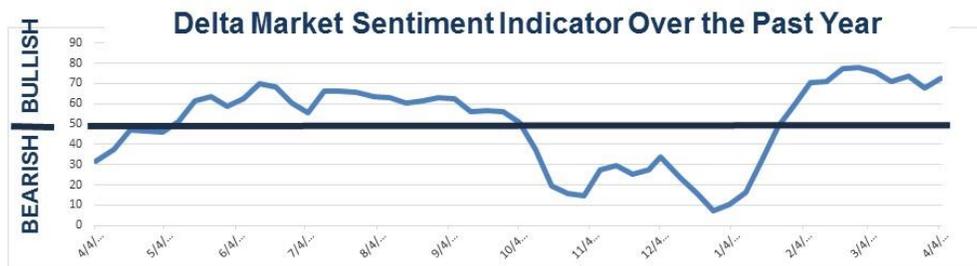
**72.5**

Our technical indicator increased  
this week from 67.7 to 72.5

### INDICATOR STATISTICS

|                            |             |
|----------------------------|-------------|
| Consecutive Bullish Weeks: | 10          |
| Cycle Inception Date:      | 1/31/2019   |
| Range:                     | 59.5 – 77.7 |
| Mean:                      | 71.7        |
| Bullish Weeks YTD:         | 10          |
| Bearish Weeks YTD:         | 4           |
| *S&P 500                   | 6.6%        |
| *DJIA                      | 5.6%        |
| *NASDAQ                    | 8.6%        |

\* Percentage change during current cycle



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

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